MILLENNIUM CHALLENGE COMPACT

BETWEEN

THE UNITED STATES OF AMERICA

ACTING THROUGH

THE MILLENNIUM CHALLENGE CORPORATION

AND

THE DEMOCRATIC REPUBLIC OF TIMOR-LESTE

MILLENNIUM CHALLENGE COMPACT

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MILLENNIUM CHALLENGE COMPACT

PREAMBLE

This MILLENNIUM CHALLENGE COMPACT (this "***Compact***") is between the United States of America, acting through the Millennium Challenge Corporation, a United States government corporation ("***MCC***"), and the Democratic Republic of Timor-Leste (the "***Government***"). Capitalized terms used in this Compact shall have the meanings provided in Annex VI.

Recognizing that the United States of America (the "***United States***") and the Government (collectively, the "***Parties***" and each individually, a "***Party***") are committed to the shared goals of promoting economic growth and the elimination of extreme poverty in Timor-Leste and that MCC assistance under this Compact supports Timor-Leste's demonstrated commitment to strengthening good governance, economic freedom, and investments in people;

Recalling that the Government consulted with the private sector and civil society of Timor-Leste to determine the priorities for the use of MCC assistance, and developed and submitted to MCC a proposal for such assistance to achieve lasting economic growth and poverty reduction;

Recognizing that the United States wishes to help the Government implement the program described herein to achieve the goal and objectives described herein (as such program description and objectives may be amended from time to time in accordance with the terms of this Compact, the "***Program***"); and

Recognizing that MCC shall serve as an implementing agency for the United States under this Compact.

The Parties hereby agree as follows:

ARTICLE 1.

GOAL AND OBJECTIVES

Section 1.1 Compact Goal. The goal of this Compact is to reduce poverty through economic growth in Timor-Leste (the "***Compact Goal***"). MCC shall provide assistance in a manner that strengthens good governance, economic freedom, and investments in the people of Timor-Leste.

Section 1.2 Project Objectives. The Program consists of the projects described in Annex I (each a "***Project***" and collectively, the "***Projects***"). The objective of each of the Projects (each a "***Project Objective***" and collectively, the "***Project Objectives***") is to:

(a) Reduce fecal pathogens in piped and stored drinking water and groundwater (the "***WSD Project Objective***"); and

(b) Improve student learning outcomes (the "***TALENT Project Objective***").

ARTICLE 2.

FUNDING AND RESOURCES

Section 2.1 Program Funding. Upon entry into force of this Compact in accordance with Section 7.3, MCC shall grant to the Government, under the terms of this Compact, an amount not to exceed Three Hundred Sixty-Eight Million, Nine Hundred Forty-Eight Thousand, Three Hundred Seventy-One United States Dollars (US$368,948,371) ("***Program Funding***") for use by the Government to implement the Program. The multi-year allocation of Program Funding is generally described in Annex II.

Section 2.2 Compact Facilitation Funding.

(a) Upon the signing of this Compact, MCC shall grant to the Government, under the terms of this Compact and in addition to the Program Funding described in Section 2.1, an amount not to exceed Fifty-One Million, Fifty-One Thousand, Six Hundred Twenty-Nine United States Dollars (US$51,051,629) ("***Compact Facilitation Funding***" or "***CFF***") under Section 609(g) of the Millennium Challenge Act of 2003, as amended (the "***MCA Act***"), for use by the Government to facilitate implementation of this Compact, including for the following purposes:

(i) financial management and procurement activities;

(ii) administrative activities (including start-up costs such as staff salaries) and administrative support expenses such as rent, computers and other information technology or capital equipment;

(iii) monitoring and evaluation activities;

(iv) feasibility, design and other project preparatory studies;

(v) the development of a cost recovery plan under the WSD Project;

(vi) advisory services; and

(vii) other activities to facilitate Compact implementation as approved by MCC.

The allocation of CFF is generally described in Annex II.

(e) In accordance with Section 7.5, this Section 2.2 and other provisions of this Compact applicable to CFF shall be effective, for purposes of CFF only, as of the date this Compact is signed by the Parties.

(f) Each Disbursement of CFF is subject to satisfaction of the conditions precedent to such disbursement as set forth in Annex IV.

(g) If MCC determines that the full amount of CFF available under Section 2.2(a) exceeds the amount that reasonably can be utilized for the purposes set forth in Section 2.2(a), MCC, by written notice to the Government, may withdraw the excess amount, thereby reducing

the amount of the CFF available under Section 2.2(a) (such excess, the "***Excess CFF Amount***"). In such event, the amount of CFF granted to the Government under Section 2.2(a) shall be reduced by the Excess CFF Amount, and MCC shall have no further obligations with respect to such Excess CFF Amount.

(h) MCC, at its option by written notice to the Government, may elect to grant to the Government an amount equal to all or a portion of such Excess CFF Amount as an increase in the Program Funding, and such additional Program Funding shall be subject to the terms and conditions of this Compact applicable to Program Funding.

Section 2.3 MCC Funding. Program Funding and CFF are collectively referred to in this Compact as "***MCC Funding***," and includes any refunds or reimbursements of Program Funding or CFF paid by the Government in accordance with this Compact.

Section 2.4 Disbursement. In accordance with this Compact and the Program Implementation Agreement, MCC shall disburse MCC Funding for expenditures incurred in furtherance of the Program (each instance, a "***Disbursement***"). Subject to the satisfaction of all applicable conditions precedent, the proceeds of Disbursements shall be made available to the Government, at MCC's sole election, by (a) deposit to one or more bank accounts established by the Government and acceptable to MCC (each, a "***Permitted Account***") or (b) direct payment to the relevant provider of goods, works or services for the implementation of the Program. MCC Funding may be expended only for Program expenditures.

Section 2.5 Interest. The Government shall pay or transfer to MCC, in accordance with the Program Implementation Agreement, any interest or other earnings that accrue on MCC Funding prior to such funding being used for a Program purpose.

Section 2.6 Government Resources; Budget.

(a) The Government is committed to providing a contribution of up to Sixty-Four Million United States Dollars (US$64,000,000) over the Compact Term for the WSD Project as further provided in Annex IV to the PIA (the "***WSD Contribution***").

(b) The Government shall provide all funds and other resources, and shall take all other actions, that are necessary to carry out the Government's responsibilities under this Compact.

(c) The Government shall use its best efforts to ensure that all MCC Funding it receives or is projected to receive in each of its fiscal years is fully accounted for and identified in its annual budgets for the duration of the Program.

(d) The Government shall not reduce the normal and expected resources that it would otherwise receive or budget from sources other than MCC for the activities contemplated under this Compact and the Program.

(i) Unless the Government discloses otherwise to MCC in writing, MCC Funding shall be in addition to the resources that the Government would otherwise receive or budget for the activities contemplated under this Compact and the Program.

Section 2.7 Limitations on the Use of MCC Funding. The Government shall ensure that MCC Funding is not used for any purpose that would violate United States law or policy, as specified in this Compact or as further notified to the Government in writing, including but not limited to the following purposes:

(a) for assistance to, or training of, the military, police, militia, national guard or other quasi-military organization or unit;

(b) for any activity that is likely to cause a substantial loss of United States jobs or a substantial displacement of United States production;

(c) to undertake, fund or otherwise support any activity that is likely to cause a significant environmental, health, or safety hazard, as further described in MCC's *Environmental Guidelines* and any guidance documents issued in connection with such guidelines (collectively, the "***MCC Environmental Guidelines***"); or

(d) to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilizations as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, or to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning.

Section 2.8 Taxes.

(a) Unless the Parties specifically agree otherwise in writing, the Government shall ensure that all MCC Funding is free from the payment or imposition of any existing or future taxes, duties, levies, contributions or other similar charges (but not fees or charges for services that are generally applicable in Timor-Leste, reasonable in amount and imposed on a non-discriminatory basis) ("***Taxes***") of or in Timor-Leste (including any such Taxes imposed by a national, regional, local or other governmental or taxing authority of or in Timor-Leste). Specifically, and without limiting the generality of the foregoing, MCC Funding shall be free from the payment of (i) any tariffs, customs duties, import taxes, export taxes, and other similar charges on any goods, works or services introduced into Timor-Leste in connection with the Program; (ii) sales tax, value added tax, excise tax, property transfer tax, and other similar charges on any transactions involving goods, works or services in connection with the Program, (iii) taxes and other similar charges on ownership, possession or use of any property in connection with the Program, and (iv) taxes and other similar charges on income, profits, or gross receipts attributable to work performed in connection with the Program, and related social security taxes and other similar charges on all natural or legal persons performing work in connection with the Program, except in the case of this clause (iv): (1) natural persons who are citizens or permanent residents of Timor-Leste and (2) legal persons formed under the laws of Timor-Leste (but excluding MCA-Timor-Leste) and any other entity formed for the purpose of implementing the Government's obligations hereunder).

(b) The mechanisms that the Government shall use to implement the tax exemption required by Section 2.8(a) for certain principal Taxes are set forth in Annex V of the Program Implementation Agreement. Such mechanisms shall be in accordance with the terms of the Agreement for Economic and Technical Cooperation between the United States of America and the Democratic Republic of Timor-Leste, that entered into force on April 25, 2005 and is considered effective from January 1, 2003, and may include exemptions from the payment of Taxes that have been granted in accordance with applicable law, refund or reimbursement of Taxes by the Government to MCC, MCA-Timor-Leste or to the taxpayer, or payment by the Government to MCA-Timor-Leste or MCC, for the benefit of the Program, of an agreed amount representing any collectible Taxes on the items described in Section 2.8(a). For the avoidance of doubt, the identification (or lack of identification) of Taxes in the Program Implementation Agreement shall in no way limit the scope of the tax-free treatment required by this Section 2.8. In addition, the Government shall from time to time execute and deliver, or cause to be executed and delivered, such other instructions, instruments or documents, and to take or cause to be taken such other actions as may be necessary or appropriate in the determination of MCC, in order to implement the provisions of this Section 2.8.

(c) If a Tax has been paid contrary to the requirements of Section 2.8(a) or Annex V of the Program Implementation Agreement, the Government shall refund promptly to MCC (or to another party as designated by MCC) the amount of such Tax in United States dollars within 30 days (or such other period as may be agreed in writing by the Parties) after the Government is notified in writing (whether by MCC or MCA-Timor-Leste) that such Tax has been paid. Failure to refund such amount within the specified time shall result in interest accruing on the unpaid amount in accordance with Section 5.4.

(d) The Government shall not apply any MCC Funding, any proceeds thereof or any Program Assets to satisfy its obligations under Section 2.8(c).

ARTICLE 3.

IMPLEMENTATION

Section 3.1 Program Implementation Agreement. The Parties shall enter into an agreement providing further detail on the implementation arrangements, fiscal accountability and disbursement, and use of MCC Funding and the WSD Contribution, among other matters (the "***Program Implementation Agreement***" or "***PIA***"); and the Government shall implement the Program in accordance with this Compact, the PIA, any other Supplemental Agreement and any Implementation Letter.

Section 3.2 Government Responsibilities.

(a) The Government has principal responsibility for overseeing and managing the implementation of the Program.

(b) In consultation with MCC, the Government may designate an entity to be established as an autonomous entity through issuance of a decree-law**,** as the accountable entity to implement the Program and to exercise and perform the Government's right and obligation to oversee, manage and implement the Program, including without limitation, managing the implementation of the Projects and their Activities, allocating resources and managing procurements. Such entity shall be referred to herein as "***MCA-Timor-Leste***," and shall have the

authority to bind the Government with regard to all Program activities. The Government hereby also designates MCA-Timor-Leste to exercise and perform the Government's right and obligation to oversee, manage and implement the activities described in the Compact Development Funding Agreement, dated May 3, 2019, by and between the Government and MCC (as amended or otherwise modified, the "***CDF Agreement***"). Prior to the recruitment of the Executive Director of MCA-Timor-Leste, the Government hereby designates the existing Compact Development Team of Timor-Leste to implement the Program and to exercise and perform the Government's right and obligation to oversee, manage and implement the Program, including without limitation, managing the implementation of the Projects and their Activities, allocating resources and managing procurements. The designation contemplated by this Section 3.2(b) shall not relieve the Government of any obligations or responsibilities hereunder or under any related agreement, for which the Government remains fully responsible and any provision of this Compact, the PIA or any Supplemental Agreement obligating MCA-Timor-Leste to take any action or refrain from taking any action, as the case may be, means the Government shall cause MCA-Timor-Leste to take such action or refrain from taking such action, as the case may be. MCC hereby acknowledges and consents to the designation in this Section 3.2(b).

(c) The Government shall ensure that any Program Assets or services funded in whole or in part (directly or indirectly) by MCC Funding are used solely in furtherance of this Compact and the Program unless MCC agrees otherwise in writing.

(d) The Government shall take all necessary or appropriate steps to achieve each of the Project Objectives during the Compact Term (including, without limiting Section 2.6(a), funding all costs that exceed MCC Funding and are required to carry out the terms hereof and achieve such objectives, unless MCC agrees otherwise in writing).

(e) The Government shall ensure that the Program is implemented, and that the Government carries out its obligations hereunder, with due care, efficiency, and diligence in conformity with sound technical, financial, procurement, and management practices, and in conformity with this Compact, the Program Implementation Agreement, any other Supplemental Agreement, any Implementation Letter, and the Program Guidelines.

(f) The Government hereby grants to MCC a perpetual, irrevocable, royalty-free, worldwide, fully paid, assignable right and license to practice or have practiced on its behalf (including the right to produce, reproduce, publish, repurpose, use, store, modify, or make available) any portion or portions of Intellectual Property as MCC sees fit in any medium, now known or hereafter developed, for any purpose whatsoever.

Section 3.3 Policy Performance. In addition to undertaking the specific policy, legal, and regulatory reform commitments identified in Annex I, the Government shall seek to maintain and to improve its level of performance under the policy criteria identified in Section 607 of the MCA Act, and the selection criteria and methodology used by MCC.

Section 3.4 Accuracy of Information. The Government assures MCC that, as of the date this Compact is signed by the Government, the information provided to MCC by or on behalf of the Government in the course of reaching agreement on this Compact is true, correct, and complete in all material respects.

Section 3.5 Implementation Letters. From time to time, MCC may provide guidance to the Government in writing on any matters relating to this Compact, MCC Funding or implementation of the Program. The Government shall use such guidance in implementing the Program. The Parties may also issue joint writings to confirm and record their mutual understanding on aspects related to the implementation of this Compact, the PIA or other related agreements, including to record any revisions, exceptions or modifications that are permitted hereunder. All such writings referenced in this section are referred to herein as "***Implementation Letters***."

Section 3.6 Procurement and Grants.

(a) The Government shall ensure that the procurement of all goods, works, and services by the Government or any Provider to implement the Program shall be in accordance with MCC's *Program Procurement Guidelines* (the *"**MCC Program Procurement Guidelines**"*). The MCC Program Procurement Guidelines include the following provisions, among others:

(i) open, fair, and competitive procedures must be used in a transparent manner to solicit, award and administer contracts and to procure goods, works and services;

(ii) solicitations for goods, works, and services must be based upon a clear and accurate description of the goods, works and services to be acquired;

(iii) contracts must be awarded only to qualified contractors that have the capability and willingness to perform the contracts in accordance with their terms on a cost effective and timely basis; and

(iv) no more than a commercially reasonable price, as determined, for example, by a comparison of price quotations and market prices, shall be paid to procure goods, works and services.

(b) Unless MCC otherwise consents in writing, the Government shall ensure that any grant issued in furtherance of the Program (each, a "***Grant***") is awarded, implemented, and managed in accordance with MCC's *Program Grant Guidelines* (the *"**MCC Program Grant Guidelines**"*). The MCC Program Grant Guidelines must be interpreted and applied consistent with the principle that open, competitive and fair procedures are used in a transparent manner in the award and administration of Grants, for the accomplishment of objectives under the Compact.

Section 3.7 Records; Accounting; Covered Providers; Access.

(a) Government Books and Records. The Government shall maintain, and shall use its best efforts to ensure that all Covered Providers maintain, accounting books, records, documents, and other evidence relating to the Program adequate to show, to MCC's satisfaction, the use of all MCC Funding and the implementation and results of the Program ("***Compact Records***"). In addition, the Government shall furnish or cause to be furnished to MCC, upon its request, originals or copies of such Compact Records.

(b) Accounting. The Government shall maintain, and shall use its best efforts to ensure that all Covered Providers maintain, Compact Records in accordance with generally

accepted accounting principles prevailing in the United States, or at the Government's option and with MCC's prior written approval, other accounting principles, such as those (i) prescribed by the International Accounting Standards Board, or (ii) then prevailing in Timor-Leste. Compact Records must be maintained for at least five years after the end of the Compact Term or for such longer period, if any, required to resolve any litigation, claims or audit findings or any applicable legal requirements.

(c) Access. Upon MCC's request, the Government, at all reasonable times, shall permit, or cause to be permitted, authorized representatives of MCC, the Inspector General of MCC ("***Inspector General***"), the United States Government Accountability Office, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of this Compact, and any agents or representatives engaged by MCC or the Government to conduct any assessment, review, or evaluation of the Program, the opportunity to audit, review, evaluate, or inspect facilities, assets, and activities funded in whole or in part by MCC Funding.

Section 3.8 Audits; Reviews.

(a) Government Audits. Except as the Parties may agree otherwise in writing, the Government shall, on at least an annual basis, conduct, or cause to be conducted, financial audits and review engagements of all disbursements of MCC Funding covering the period from signing of this Compact until the following March 31 or September 30, and then covering each semi-annual period thereafter ending March 31 or September 30, through the end of the Compact Term, as well as the 90-day period following expiration of the Compact Term. In addition, the Government shall ensure that such audits are conducted by an independent auditor approved by MCC and selected in accordance with MCC's *The Accountable Entities Guidelines for Contracted Financial Audits* (the "***Audit Guidelines***"). Audits shall be performed in accordance with such Audit Guidelines, and/or other processes and procedures as directed from time to time by MCC. Each audit must be completed, and the draft audit report delivered to MCC, no later than 90 days after the applicable audit period, or such other period as the Parties may otherwise agree in writing. Each final audit report will be delivered to MCC and to MCA-Timor-Leste's *Orgão Fiscal*, when such report has been finalized. Any changes to the period to be audited shall be included in an audit plan developed and implemented by MCA-Timor-Leste in accordance with Audit Guidelines and Program Implementation Agreement and as approved by MCC (the "***Audit Plan***"). The requirements of this Section 3.8(a) do not preclude the Government from conducting audits of MCA-Timor-Leste or of the Program, as may be required by Timor-Leste law.

(b) Audits of Other Entities. The Government shall ensure that MCC-financed agreements between the Government or any Provider, on the one hand, and an entity defined as a Covered Provider by the Audit Guidelines on the other hand, state that the Covered Provider is subject to audit in accordance with the Audit Guidelines.

(c) Corrective Actions. The Government shall use its best efforts to ensure that MCA-Timor-Leste and any other Covered Provider (i) takes, where necessary, appropriate, and timely, corrective actions in response to audits, (ii) considers whether the results of MCA-Timor-Leste's or any other Covered Provider's audits necessitate adjustment of the Government's records, and (iii) permits independent auditors to have access to its records and financial statements as necessary.

(d) Audits. MCC or the Government shall each have the right to arrange for audits of the Government's use of MCC Funding and the WSD Contribution. The Parties agree that the *Câmara de Contas do Tribunal Superior Administrativo, Fiscal e de Contas* (Timor-Leste's Audit Court) will not have jurisdiction over MCA-Timor-Leste's acts, as set forth in more detail in Annex I.

(e) Cost of Audits, Reviews or Evaluations. MCC Funding may be used to fund the costs of any audits, reviews, or evaluations required under this Compact.

ARTICLE 4.

COMMUNICATIONS

Section 4.1 Communications. Any document or communication required or submitted by either Party to the other under this Compact must be in writing and, except as otherwise agreed with MCC, in English. All such documents or communication must be submitted to the address of each Party set forth below or to such other address as may be designated by any Party in a written notice to the other Party.

To MCC:

Millennium Challenge Corporation
Attention: Vice President, Compact Operations
(with a copy to the Vice President and General Counsel)
1099 Fourteenth Street NW, Suite 700
Washington, DC 20005
United States of America
Facsimile: +1 (202) 521-3700
Telephone: +1 (202) 521-3600
Email: VPOperations@mcc.gov (Vice President, Compact Operations)
VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To the Government:

Minister of the Presidency of the Council of Ministers
Attention: Minister of the Presidency of the Council of Ministers
Palácio do Governo
Edificio 1
Praça da Proclamação da Independência
Dili, Timor-Leste
Telephone: +670 77465004
+670 77859229
Email: **fidelis.magalhaes@oitavo.gov.tl**

To MCA-Timor-Leste:

Upon establishment of MCA-Timor-Leste, MCA-Timor-Leste shall notify the Parties of its contact details.

Section 4.2 Representatives. For all purposes relevant to implementation of this Compact, the Government shall be represented by the individual holding the position of, or acting as, the Minister of the Presidency of the Council of Ministers, and the United States shall be represented by the individual holding the position of, or acting as, Vice President, Compact Operations of MCC (each of the foregoing, a "***Principal Representative***"). Each Party, by written notice to the other Party, may designate one or more additional representatives of such Party, as appropriate (each, an "***Additional Representative***") for all purposes relevant to implementation of this Compact except for amending this Compact pursuant to Section 6.2(a). The Government hereby designates the Executive Director of MCA-Timor-Leste as an Additional Representative for the Government. The United States hereby designates the Deputy Vice President for Europe, Asia, Pacific, and Latin America of MCC and the Resident Country Director of MCC for Timor-Leste as Additional Representatives for the United States. A Party may change its Principal Representative to a new representative that holds a position of equal or higher authority upon written notice to the other Party.

Section 4.3 Signatures. Signatures to this Compact and to any amendment to this Compact shall be original signatures appearing on the same page or in an exchange of letters or diplomatic notes.

ARTICLE 5.

TERMINATION; SUSPENSION; EXPIRATION

Section 5.1 Termination; Suspension.

(a) Either Party may terminate this Compact without cause in its entirety by giving the other Party 30 days' prior written notice. MCC may also terminate MCC Funding without cause in part by giving the Government 30 days' prior written notice.

(b) MCC may, immediately, upon written notice to the Government, suspend or terminate this Compact or MCC Funding, in whole or in part, and any obligation related thereto, if MCC determines that any circumstance identified by MCC as a basis for suspension or termination (as notified to the Government in writing) has occurred, which circumstances include, but are not limited to the following:

(i) the Government fails to comply with its obligations under this Compact or any other agreement or arrangement entered into by the Government in connection with this Compact or the Program;

(ii) any statement, affirmation or assurance of the Government made or deemed made in this Compact, the PIA, any Supplemental Agreement, or in any certificate or other document delivered in connection with this Compact proves to have been incorrect or misleading as of the date when made or deemed made;

(iii) an event or series of events has occurred that makes it probable that any Project Objective is not going to be achieved during the Compact Term or that the Government is not going to be able to perform its obligations under this Compact;

(iv) a use of MCC Funding or continued implementation of this Compact or the Program violates applicable law or United States Government policy, whether now or hereafter in effect;

(v) the Government or any other person or entity receiving MCC Funding or using Program Assets is engaged in activities that are contrary to the national security interests of the United States;

(vi) an act has been committed or an omission or an event has occurred that would render Timor-Leste ineligible to receive United States economic assistance under Part I of the Foreign Assistance Act of 1961, as amended (22 U.S.C. 2151 *et seq*.), by reason of the application of any provision of such act or any other provision of law;

(vii) the Government has engaged in a pattern of actions inconsistent with the criteria used to determine the eligibility of Timor-Leste for assistance under the MCA Act;

(viii) Timor-Leste is classified as a Tier 3 country in the United States Department of State's annual Trafficking in Persons Report; and

(ix) a person or entity receiving MCC Funding or using Program Assets is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking.

Section 5.2 Consequences of Termination, Suspension or Expiration.

(a) Upon the suspension or termination, in whole or in part, of this Compact or any MCC Funding, or upon the expiration of this Compact, the Program Implementation Agreement shall govern the post-suspension, post-termination or post-expiration treatment of MCC Funding, any related Disbursements and Program Assets. Any portion of this Compact, MCC Funding, the Program Implementation Agreement or any other Supplemental Agreement that is not suspended or terminated shall remain in full force and effect.

(b) MCC may reinstate any suspended or terminated MCC Funding under this Compact if MCC determines that the Government or other relevant person or entity has committed to correct each condition for which MCC Funding was suspended or terminated.

Section 5.3 Refunds; Violation.

(a) If any MCC Funding, any interest or earnings thereon, or any Program Asset is used for any purpose in violation of the terms of this Compact, then MCC may require the Government to repay to MCC in United States Dollars the value of the misused MCC Funding, interest, earnings, or asset, plus interest thereon in accordance with Section 5.4 within 30 days after the Government's receipt of MCC's request for repayment. The Government shall not use MCC Funding, proceeds thereof or any Program Asset to make such payment.

(b) Notwithstanding any other provision in this Compact or any other agreement to the contrary, the United States' right under Section 5.3(a) to obtain a refund shall continue

during the Compact Term and for a period of (i) five years thereafter or (ii) one year after MCC receives actual knowledge of such violation, whichever is later.

Section 5.4 Late Payment Interest. If the Government fails to pay any amount under this Compact or the Program Implementation Agreement when due (including amounts under Section 2.8(c) and 5.3(a)), the Government shall pay interest on such past due amount. Interest shall accrue on such amount at a rate equal to the then-current US Treasury Current Value of Funds Rate, calculated on a daily basis and a 360-day year from the due date of such payment until such amount is paid in full. Any such payment shall first be credited against interest due, and once the interest due amount is extinguished, then payments shall be credited against outstanding principal.

Section 5.5 Survival. The Government's responsibilities under this Section and Sections 2.7 (Limitations on the Use of MCC Funding), 2.8 (Taxes), 3.2(f), 3.7 (Records; Accounting; Covered Providers; Access), 3.8 (Audits; Reviews), 5.2 (Consequences of Termination, Suspension or Expiration), 5.3 (Refunds; Violation), 5.4 (Late Payment Interest), and 6.4 (Governing Law) shall survive the expiration, suspension or termination of this Compact, provided that the terms of Section 2.8 shall survive for only 120 days following this Compact's expiration.

ARTICLE 6.

COMPACT ANNEXES; AMENDMENTS; GOVERNING LAW

Section 6.1 Annexes. Each annex to this Compact constitutes an integral part hereof, and references to "***Annex***" mean an annex to this Compact unless otherwise expressly stated.

Section 6.2 Amendments and Modifications.

(a) The Parties may amend this Compact only by a written agreement. Such agreement shall specify how it enters into force.

(b) Notwithstanding subsection (a), the Parties agree that the Government and MCC may by written agreement, which shall enter into force upon signature, modify any Annex to, in particular, but without limitation (i) suspend, terminate or modify any Project or Activity, (ii) change the allocations of funds as set forth in Annex II, (iii) modify the implementation framework described in Annex I, (iv) add, change or delete any indicator, baseline or target or other information set forth in Annex III in accordance with the MCC M&E Policy, or (v) add, modify or delete any condition precedent described in Annexes IV and V; *provided that*, in each case, any such modification (1) is consistent in all material respects with the Project Objectives, (2) does not cause the amount of Program Funding to exceed the aggregate amount specified in Section 2.1 (as may be modified by operation of Section 2.2(e)), (3) does not cause the amount of CFF to exceed the aggregate amount specified in Section 2.2(a), and (4) does not extend the Compact Term.

(c) The Parties understand that any modification of any Annex pursuant to this Section 6.2 may be entered into by the Government without the need for further action by the Government (including any parliamentary action), or satisfaction of any additional domestic requirements of Timor-Leste.

Section 6.3 Inconsistencies. In the event of any conflict or inconsistency between:

(a) any Annex and any of Articles 1 through 7, such Articles 1 through 7, as applicable, shall prevail; or

(b) this Compact and any other agreement between the Parties regarding the Program, this Compact shall prevail.

Section 6.4 Governing Law. This Compact is an international agreement and as such shall be governed by international law.

Section 6.5 Additional Instruments. Any reference to activities, obligations or rights undertaken or existing under or in furtherance of this Compact or similar language shall include activities, obligations, and rights undertaken by, or existing under or in furtherance of any agreement, document or instrument related to this Compact and the Program.

Section 6.6 References to MCC Website. Any reference in this Compact, the PIA or any other agreement entered into in connection with this Compact, to a document or information available on, or notified by posting on the MCC Website shall be deemed a reference to such document or information as updated or substituted on the MCC Website from time to time.

Section 6.7 References to Laws, Regulations, Policies and Guidelines; References to Compact Expiration and Termination; Government Successors.

(a) Each reference in this Compact, the PIA or any other agreement entered into in connection with this Compact to a law, regulation, policy, guideline or similar document shall be construed as a reference to such law, regulation, policy, guideline or similar document as it may, from time to time, be amended, revised, replaced, or extended, and shall include any law, regulation, policy, guideline or similar document issued under or otherwise applicable or related to such law, regulation, policy, guideline or similar document.

(b) Each reference in this Compact, the PIA or any other agreement entered into in connection with this Compact, to the Compact's "expiration" refers to the date on which the Compact Term ends if the Compact is not terminated earlier, which in accordance with Section 7.4 is five years after its entry into force. Each reference in any of the aforementioned documents to the Compact's "termination" refers to this Compact ceasing to be in force prior to its expiration in accordance with Section 5.1.

(c) Unless expressly provided otherwise, each reference in this Compact, the PIA, or any other agreement entered into in connection with this Compact, to a Government ministry shall be construed to include any successor ministry with the relevant subject matter or sector authority.

Section 6.8 MCC Status. MCC is a United States government corporation acting on behalf of the United States in the implementation of this Compact. The United States Government, including MCC, assumes no liability for any claims or loss arising out of activities or omissions under this Compact. The Government waives any and all claims against the United States Government, including MCC, and any current or former officer or employee of the United States Government, including MCC, for all loss, damage, injury, or death arising out of activities or omissions under this Compact, and agrees that it shall not bring any claim or legal proceeding of

any kind against any of the above entities or persons for any such loss, damage, injury, or death. The Government agrees that the United States Government, including MCC, and any current or former officer or employee of the United States Government, including MCC, shall be immune from the jurisdiction of all courts and tribunals of Timor-Leste for any claim or loss arising out of activities or omissions under this Compact.

ARTICLE 7.

ENTRY INTO FORCE

Section 7.1 Domestic Procedures. The Government shall proceed in a timely manner to complete all of its domestic requirements for this Compact to enter into force. The Parties understand that this Compact and the PIA, upon entry into force, shall prevail over the laws of Timor-Leste with the exception of the constitution of Timor-Leste.

Section 7.2 Conditions Precedent to Entry into Force. Each of the following conditions must be met to MCC's satisfaction, before this Compact enters into force:

(a) the Program Implementation Agreement is signed by the parties thereto;

(b) The Government delivers to MCC:

(i) a letter signed and dated by the Principal Representative of the Government, or such other duly authorized representative of the Government acceptable to MCC, confirming that the Government has completed its domestic requirements necessary for this Compact to enter into force and that the other conditions precedent to entry into force in this Section 7.2 have been met;

(ii) a signed legal opinion from the Presidency of the Council of Ministers of Timor-Leste (or such other legal representative of the Government acceptable to MCC), in form and substance satisfactory to MCC; and

(iii) complete, certified copies of all decrees, legislation, regulations or other governmental documents relating to the Government's domestic requirements necessary for this Compact and the PIA to enter into force, which MCC may post on its website or otherwise make publicly available.

(c) MCC determines that, after signature of this Compact, the Government has not engaged in a pattern of actions inconsistent with the eligibility criteria for MCC Funding; and

(d) The conditions set forth in Annex V have been satisfied.

Section 7.3 Date of Entry into Force. This Compact shall enter into force on the date of the letter from MCC to the Government in an exchange of letters confirming that MCC and the Government have completed their respective domestic requirements for entry into force of this Compact and that the conditions precedent to entry into force in Section 7.2 have been met to MCC's satisfaction.

Section 7.4 Compact Term. This Compact shall remain in force for five years after its entry into force, unless terminated earlier under Section 5.1 (the "***Compact Term***").

Section 7.5 Provisional Application. Upon signature of this Compact, and until this Compact has entered into force in accordance with Section 7.3, the Parties shall provisionally apply the terms of this Compact; *provided that,* no MCC Funding, other than CFF, shall be made available or disbursed before this Compact enters into force.

SIGNATURE PAGE FOLLOWS ON THE NEXT PAGE

IN WITNESS WHEREOF, the undersigned duly authorized by their respective governments have signed this Compact. Done at Dili, Timor-Leste, this 19th day of July, 2022. The English language text is the only authentic text of this Compact.

FOR THE UNITED STATES OF AMERICA	FOR THE DEMOCRATIC REPUBLIC OF TIMOR-LESTE
/s/	/s/
Name: Cameron Alford Title: Acting Vice President, Department of Compact Operations, the Millennium Challenge Corporation	Name: Fidelis Manuel Leite Magalhães Title: Minister of the Presidency of the Council of Ministers

ANNEX I

PROGRAM DESCRIPTION

This Annex I describes the Program that MCC Funding will support in Timor-Leste during the Compact Term.

A. PROGRAM OVERVIEW

1. Background and Consultative Process.

a. Background.

Since gaining independence in 2002, Timor-Leste has been engaged in building a strong, resilient economy that benefits all Timorese. Supported by significant donor investment since its founding, the Government coordinates aid financing in an effort to make the strategic investments necessary to address critical development priorities and generate sustained job-creating growth, as reflected in the Government's Foreign Aid Policy.

In 2010, MCC's Board of Directors approved a $10.49 million Threshold Program for Timor-Leste, which aimed to reduce corruption by building a network of anti-corruption institutions and actors and improve access to immunization services through the creation of a more effective community health system. The program was administered by USAID and completed in 2014. In December 2017, MCC's Board of Directors selected Timor-Leste as eligible to develop a compact and reselected Timor-Leste in each year from 2018 to 2021. In discussions with MCC, the Government has shown strong commitment to an inclusive and transparent compact development process to identify investments that will reduce poverty through economic growth.

The constraints analysis identified four primary constraints, two of which were selected for further development: weak policies and institutions to enable market transactions, and low human capital attributed to poor nutritional outcomes and lack of high skilled workers. The Government ultimately decided to submit two project proposals in education and water, sanitation, and drainage to address the human capital constraint, recognizing the importance of a skilled, healthy workforce in improving the business environment and generating significant and sustainable economic returns for the country.

b. Consultative Process.

The Government and MCC engaged in an inclusive and strategic consultative process to inform the constraints analysis and project designs. Both project teams consulted with government ministries and stakeholders, international development partners, and civil society throughout the compact development process.

2. Description of Program and Beneficiaries.

(a) Program Description.

The Program aims to address the human capital constraint to economic growth by improving the health and skills of the Timorese people through two projects: the WSD Project and the TALENT Project.

(b) Intended Beneficiaries.

The Program is projected to benefit hundreds of thousands of people in Timor-Leste over a twenty-year period, as set forth below and as further detailed in Annex III. Through the WSD Project, an estimated 429,000 residents of the capital city of Dili and 64,000 residents of four neighboring districts will receive disinfected water. Approximately 301,000 Dili residents are also expected to benefit from the wastewater collection and treatment infrastructure introduced by the WSD Project. Through improved secondary school teaching and school leadership, the TALENT Project is expected to benefit all upper secondary graduates in the country who were taught by TALENT Project-trained teachers and subsequently entered the labor force, as well as their co-householders, which totals approximately 957,000 beneficiaries. As there is some anticipated overlap in beneficiaries across both projects, the beneficiaries cannot simply be added together to estimate total beneficiaries.

B. DESCRIPTION OF PROJECTS

Set forth below is a description of each of the Projects that the Government shall implement, or cause to be implemented, using MCC Funding and the WSD Contribution to advance the applicable Project Objective. In addition, specific activities that shall be undertaken within each Project (each, an "***Activity***"), including sub-activities, are also described.

1. WSD Project

a. Summary of Project and Activities.

The objective of the Water, Sanitation, and Drainage Project (the "***WSD Project***") is stated in Section 1.2. The WSD Project will achieve the WSD Project Objective by (i) building a plant to produce a disinfectant chemical to treat city water supply across Dili and four districts, (ii) constructing the country's first central wastewater system, (iii) making improvements to the related drainage network in Dili, (iv) supporting key policy and institutional reforms to support long-term sustainability of the infrastructure, and (v) supporting social behavioral change efforts to improve household water management and hygiene practices. Collectively, these investments are aimed at mitigating exposure to sanitary waste and pathogens in water, households, and the environment.

The WSD Project includes the following five Activities:

(i) Water Disinfection Activity

This Activity will supply disinfected water to Dili and four districts of Timor-Leste (Aileu, Ermera, Liquica, and Manatuto) through the design and construction of an On-site Sodium Hypochlorite Generation ("***OSHG***") plant and the purchase of disinfectant distribution equipment. MCC

Funding will support the design and construction of the OSHG plant which will provide the required amount of 0.8% sodium hypochlorite solution for disinfection of wastewater and drinking water. The drinking water disinfection component will serve the Dili Municipal Water System and the four targeted districts. The facility will house up to four OSHG skids each with a production capacity of 680kg/day. MCC Funding also will support the design and construction of a high-grade sodium chloride storage building at the Wastewater Treatment Plant with the capacity to store salt, the primary raw material required for the OSHG system, with capacity for a two-month supply of salt. This high-grade sodium chloride storage building will also house brine tanks, water tank, pressure filters, water pump, and brine pumps.

In addition, MCC Funding will support the purchase of a number of tanker trucks and associated infrastructure and equipment for delivery of disinfectant to water supply application points in Dili and the surrounding districts.

(ii) Sanitation Activity

The aim of the Sanitation Activity is to remove fecal pathogens from the environment and reduce exposure pathways through the development of a new centralized wastewater treatment system in Dili, which has nearly four times the population density and higher incidence of diarrheal disease when compared to the other districts of Timor-Leste. This activity includes the design and construction of a new wastewater treatment plant ("***Wastewater Treatment Plant***"), ocean outfall, wastewater collection systems, and wastewater connections to households and businesses.

A. Wastewater Treatment Plant

MCC Funding will support the design and construction of a new Wastewater Treatment Plant. The Wastewater Treatment Plant will treat and disinfect wastewater from the piped sanitation coverage area and include a septage receiving facility to treat septage received from areas outside the piped sanitation coverage area. The plant will be sized for future connections in Dili, allowing the Government and other donors to continue cost effective expansion of the sewage collection system. The Sub-Activity also includes support for operations and maintenance of the plant by a private operator. The private operator is expected to also provide training of local utility staff in operations and maintenance management.

B. Ocean Outfall

Through this Sub-Activity, MCC Funding will support a marine pipeline constructed to convey treated, disinfected wastewater from the Wastewater Treatment Plant to the ocean to ensure adequate mixing of treated effluent with ocean waters. The outfall is designed to convey treated wastewater flows from the Wastewater Treatment Plant operating at full capacity, hence the investment will cover areas outside the WSD Project areas to account for future growth.

C. Wastewater Collection System – Conventional Gravity Sewers

Under this Sub-Activity, MCC Funding will support the construction of conventional wastewater collection networks comprised of approximately 130 km of sewer pipelines, four pumping stations receiving flows from the project area, and a transmission main pipeline conveying the wastewater to the Wastewater Treatment Plant.

D. Wastewater Collection System – Simplified Gravity Sewers

In order to expand service to all households in the project area, MCC Funding for this Sub-Activity will support the construction of a simplified sewer collection system comprised of approximately 160 km of sewer pipelines in unstructured[1] areas in the project area.

E. House Connections, Toilets, Decommissioning Septic Tanks

This Sub-Activity, expected to be funded by the Government through the WSD Contribution, will support the implementation of household and business wastewater connections, the decommissioning of pit latrines, and the provision of toileting facilities, where required, in both structured and unstructured areas.

(iii) Associated Drainage Activity

This Activity includes improving specific portions of the drainage system in areas where the WSD Project-funded conventional gravity sewer system will be constructed. Installing the sanitary sewer and the drainage infrastructure simultaneously provides the opportunity to avoid conflicts between the two systems. MCC Funding will provide for the construction of new drainage structures in the Activity areas.

(iv) Institutional Reform Activity

To ensure long-term sustainability of the WSD Project's infrastructure investments, this Activity will support the capacity building and institutional development of the water utility with a focus on strengthening asset management expertise and operations and maintenance ("***O&M***") capacity. The Activity will further promote sustainability through targeted assistance to the new independent water regulator ("***ANAS***"), to develop and implement regulations around sanitation and disinfection. Together with other institutional reform efforts that are supported by the Government and other development partners, this Activity contributes to improved customer services and the sustainability of all assets under the management of the newly established water utility, the Bee Timor Leste Public Company ("***BTL***"), including the Project-funded construction.

A. Utility Operator Training Program

All sanitation and disinfection assets will require trained operators to properly operate and maintain the systems. MCC Funding will provide for a foundational technical training program to prepare BTL staff for subsequent on-the-job training by the private operator and to ultimately assume responsibility in operating and maintaining all assets.

[1] For the purposes of this Compact, an "unstructured area" is an area that is difficult to serve with a conventional gravity sewer. These areas are often further characterized by gravel or dirt road access and dense, informal housing developments and uncertain land ownership. These areas are in contrast to "structured areas" that are able to be served with a conventional gravity sewer.

B. Utility Private Operator Procurement Support

Through this Sub-Activity, MCC Funding will provide technical assistance to develop terms of reference for private operator assistance that will be procured through the Wastewater Treatment Plant construction contract. Over an approximately five-year period, the private operator will operate the Wastewater Treatment Plant and the OSHG plant. Simultaneously, the private operator will train BTL staff so that BTL can assume operations of both the Wastewater Treatment Plant and the OSHG plant after the end of the private operator's contract.

C. Regulatory Reform Assistance

MCC Funding under this Sub-Activity will provide technical assistance to ANAS to develop sanitation regulations and promulgate relevant decree-law(s). This includes sanitation standards in wastewater effluent quality from the Wastewater Treatment Plant, wastewater discharges from industrial customers, decommissioning of septic tanks, mandatory connections when a central collection system is made available, and septic tank regulations for areas without piped sanitation.

D. Sanitation and Disinfection Operations and Maintenance Support

Under this Sub-Activity, MCC Funding will fund the initial cost of the equipment and vehicles needed to operate and maintain the wastewater system and the drainage network and provide for laboratory equipment for water quality monitoring. Technical assistance will also be provided to evaluate the feasibility of producing food grade salt for the OSHG plant locally.

(v) Household Water and Hygiene Activity

This Activity includes interventions to increase household and community awareness of the benefits of and support for the infrastructure as well as the adoption and maintenance of key behaviors aimed at reducing fecal pathogens and ultimately reducing the diarrheal disease burden, using a gender-focused approach. Social behavioral change techniques employed in these interventions will seek to improve the knowledge, awareness, social support, and self-efficacy of project participants in performing these behaviors and be appropriately phased to complement infrastructure milestones and interventions.

A. Household Water Management

MCC Funding under this Sub-Activity will support the diffusion of techniques usable at the household-level to promote safe household water management practices prior to and post-construction, including point-of-use treatment, storage, transport, and dispensing of water to prevent recontamination of water. These techniques will be communicated through community training and household-level mentorship programming, communications campaigns, and targeted capacity building for relevant entities, all in collaboration with the Government and other donors. It will support increasing awareness of the use of water from various sources, including the impact of the Water Disinfection Activity on the quality of water supplied to households.

B. Household Sanitation

In collaboration with the Government and other donors, MCC Funding under this Sub-Activity supports community training and household-level mentorship programming, communications campaigns, and targeted capacity building for relevant entities on consistent and correct use of flush toilets in both structured and unstructured areas, appropriate hygiene practices, and regular toilet maintenance.

b. Beneficiaries.

Through the Water Disinfection Activity, the WSD Project will provide sufficient disinfectant that will permit BTL to supply disinfected water to approximately 108,000 residents of Dili who are currently connected to the water supply network, and in conjunction with the World Bank and Asian Development Bank-funded Dili Water Supply Project, ultimately serve 429,000 total residents in Dili's water service area by 2036. Using the OSHG plant developed by the WSD Project, BTL will supply disinfected water to up to 64,000 residents in the other four districts of Timor-Leste. Through the Sanitation Activity, the WSD Project will initially connect approximately 106,165 residents of Dili to the new Wastewater Treatment Plant; however, the WSD Project treatment and conveyance infrastructure is sized to collect wastewater from up to 300,909 residents of Dili's wastewater service area (as projected in 2036 in accordance with the Government's 2018 Sanitation Master plan) when additional upstream conveyance infrastructure and collection systems are constructed following the expiration of this Compact. The WSD Project's design of selected additional wastewater collection service areas will enable the implementation of planned, additional connections.

c. Environmental and Social Mitigation Measures.

In compliance with Section 3.2(e), the Government shall ensure that all Projects and Activities undertaken, funded or otherwise supported in whole or in part (directly or indirectly) by MCC Funding under the Compact comply with the MCC Environmental Guidelines, including the environmental and social performance standards set forth in the *Performance Standards on Environmental and Social Sustainability of the International Finance Corporation* (as in effect from time to time, the "***IFC Performance Standards***") that have been incorporated by reference into the MCC Environmental Guidelines. Based on preliminary due diligence against MCC Environmental Guidelines criteria, the WSD Project is classified as a Category A project.

By providing a reliable disinfectant for drinking water, a sanitation system, household connections and flush toilets, and decommissioning pit latrines for 106,165 residents, the WSD Project will result in significant environmental and health benefits. However, land acquisition and potential relocations, community health and safety impacts associated with building a linear project in a densely populated urban area, construction of the marine outfall pipeline, and operational impacts on the marine environment are potentially significant and sensitive, and as such they will require more complex intervention and mitigation measures to address. The WSD Project will require an Environmental and Social Impact Assessment ("***ESIA***"), Environmental and Social Management Plans ("***ESMP***s"), and robust stakeholder engagement to assess these and other potential impacts and define appropriate mitigation measures to minimize adverse environmental impacts. In addition, land tenure issues in Timor-Leste are complex and there is little land available for relocation sites. The Government will provide all land required for the WSD Project, and has agreed to provide land acquisition and resettlement documentation for MCC review and to remedy

any inconsistencies with the IFC Performance Standards prior to initiating any land acquisition activities. A Resettlement Policy Framework ("***RPF***") is being prepared, which will be followed by a Resettlement Action Plan ("***RAP***").

The WSD Project will also generate significant volumes of biosolid wastes. Biosolids from the WSD Project are expected to be trucked to a Dili municipal landfill for disposal. The Government is working with donors to expand and upgrade this Dili municipal landfill to ensure future operations are environmentally sound.

d. Social Inclusion and Gender Integration

In compliance with Section 3.2(e), this Project and all its Activities will be implemented in compliance with the MCC Gender Policy, the MCC Counter-Trafficking in Persons Policy, and the MCC Gender and Social Inclusion Operational Milestones and Procedures.

The WSD Project involves significant construction in the capital city of Dili, which presents both risks and opportunities for women and vulnerable groups (including youth, rural migrants, and the unemployed). The Water Disinfection Activity, supported by the corresponding Household Water and Hygiene Activity-funded efforts, are expected to improve the health of household members in Dili. Businesses are also likely to benefit, since absenteeism of workers due to water-borne diseases is expected to diminish as water quality improves. Similarly, since the poor have more limited access to health care and are more likely to be exposed and suffer the consequences of a contaminated environment, the Sanitation Activity presents great potential to disproportionately benefit the poor and women.

Furthermore, in an effort to reach more poor households, the WSD Project will incorporate simplified sewer technology, which will facilitate access to the unstructured areas of Dili that tend to have higher concentration of poor and women-headed households. The Household Water and Hygiene Activity is structured to take into account the fact that women are the primary managers of water within the household and that they will play a critical role in the adoption of safe household water management practices and improved toileting practices.

As a part of the Institutional Reform Activity, MCC will provide technical assistance to the Government to develop a cost recovery plan (the "***Cost Recovery Plan***"), which will assess customers' ability and willingness to pay, as well as include recommendations on customer assistance programs to effectively address affordability for women-headed and low-income households.

The risk of trafficking in persons ("***TIP***") and gender-based violence will be continuously monitored, with measures taken during implementation to manage such risks, especially as they apply to women and children. The WSD Project will engage women and vulnerable groups in order to maximize income-generating opportunities for those populations.

e. Donor Coordination.

MCC and the Government coordinated closely with other donors during project development to maximize WSD Project benefits through a direct impact on diarrheal disease reduction. In particular, MCC and the Government are coordinating with the World Bank and the Asian Development Bank to align their components of the Dili Water Supply Project with the WSD

Project. The Dili Water Supply Project, which is jointly financed by the World Bank and the Asian Development Bank, will replace the existing water supply infrastructure in Dili, upgrade water treatment plants, increase groundwater supply, and construct water reservoirs and water distribution networks. Through the collaboration, the OSHG plant will provide sodium hypochlorite for disinfecting the drinking water provided by the World Bank and Asian Development Bank projects. MCC understands that the Asian Development Bank and the World Bank have also agreed to adopt the important policy conditions attached to the WSD Project, such as the Cost Recovery Plan, for their respective projects. The partnership will result in better quality and lower cost of water. Additionally, water supply facilities funded by other donors in the surrounding districts will be able to use the disinfectant produced in Dili.

MCC is also collaborating with other donors on an integrated policy and institutional reform agenda for BTL and ANAS, ranging from regulatory reforms to institutional development and capacity strengthening. Assistance mobilized through the Water Donor Forum (which includes MCC, World Bank, Asian Development Bank, AusAID, Japan International Cooperation Agency and the Government of Portugal) will support BTL and ANAS in strengthening the institutions and building their staff's capacity and systems.

f. USAID.

USAID is supporting efforts to strengthen water, sanitation, and hygiene systems in community health centers in Timor-Leste through a partnership with the Government's Ministry of Health and UNICEF. Such improvements will support the Government's ability to deliver quality health services to communities.

The WSD Project also broadly supports the objectives of USAID's Tourism for All Project in Timor-Leste and "Water for the World" strategy through activities aimed at developing sustainable, climate-resilient water and sanitation infrastructure and improving drinking water quality, water management, and hygiene at the household-level.

Although Timor-Leste is not currently identified as a "Water for the World Priority Country" by USAID, MCC intends to coordinate with USAID on related and complementary activities in support of mutually aligned objectives.

g. Sustainability**.**

Financial sustainability of the WSD Project investment relies principally on the development and implementation of the Cost Recovery Plan for BTL and ANAS to sustainably manage all assets. Assistance mobilized through the Water Donor Forum (which includes MCC, World Bank, Asian Development Bank, AusAID, Japan International Cooperation Agency and the Government of Portugal) will further support BTL and ANAS in strengthening the institutions and building their capacity and systems. Other aspects of the WSD Project's sustainability are associated with protecting and monitoring the marine environment, utilizing an experienced private operator at the Wastewater Treatment Plant, taking responsible measures to manage waste biosolids, and incorporating measures for climate adaption, mitigation, and resilient components. The design of the WSD Project takes both sector and social sustainability into account, as described above.

h. Policy, Legal and Regulatory Reforms.

An institutional development plan and reform agenda for the water sector in Timor-Leste was formally adopted by the Government when the independent water utility BTL and an independent water regulator ANAS were created in 2021. The plan is supported by development partners for implementation in the near and medium term. Consistent with the reform agenda, the Institutional Reform Activity will provide support to strengthen the institutional and asset management capabilities of the utility and regulator. The Government has also agreed to develop and promulgate decree-laws that will regulate the sanitation system and water quality monitoring in the country. The Institutional Reform Activity will fund technical assistance for the regulatory reform.

The Government has agreed to develop, approve, and implement a full Cost Recovery Plan so that sufficient funds will be generated for BTL to undertake operations and maintenance of all assets and systems at required levels. Approval and implementation of the plan will be a condition for periodic disbursements throughout the Compact. MCC understands that other donors have agreed to adopt elements of this Cost Recovery Plan as conditions in their respective project agreement(s) with the Government.

2. TALENT Project

a. Summary of Project and Activities.

The objective of the Teaching and Leading the Next generation of Timorese Project (the "***TALENT Project***") is stated in Section 1.2. The TALENT Project seeks to achieve this Objective by improving the quality of teaching and school leadership in all secondary schools in Timor-Leste. Specifically, the TALENT Project aims to improve pedagogy, school and classroom management; increase opportunities for women in teaching and leadership positions; improve language and information and communication technology ("***ICT***") instruction for future teachers; and enhance instructional leadership and create a supportive and inclusive learning environment. The TALENT Project is organized around the following four Activities:

(i) <u>The Center of Excellence for Teacher Education Activity</u>

This Activity will establish a new autonomous institution in Timor-Leste to provide professional training and certification to future secondary teachers entering the workforce, as well as training and certification of a portion of current secondary teachers.

A. Establishing the Center of Excellence

Under this Sub-Activity, MCC Funding will support the formal establishment and initial operations of the Center of Excellence, which will operate under the purview of the Ministry of Higher Education Science and Culture with the oversight of an executive board consisting of members from key Government entities. The Center of Excellence will be legally established, equipped with an organizational structure reflecting appropriate staffing and resources, and led by a competitively hired director. The Center of Excellence will also actively recruit women to leadership positions.

The establishment of the Center of Excellence will involve the development of an appropriate policy framework. This policy framework may include the modification of the Timor-Leste Education System Framework Law to require future secondary school teachers and school leaders to have a professional certificate from the Center of Excellence in order to be hired into Ministry of Education, Youth and Sport- or Ministry of Higher Education Science and Culture-supported positions ("***Ministry-supported Positions***"). Teacher trainees admitted to the Center of Excellence will subsequently be offered full-time teaching positions across Timor-Leste if they successfully complete their professional training and meet certification requirements.

B. Design and Build the Center of Excellence

Under this Sub-Activity, MCC Funding will support the design and construction or rehabilitation of a building to house the Center of Excellence, on land provided by the Government. The building will provide space for the training and professional development of teachers and support Center of Excellence staff in engaging in ongoing quality assurance, course development and refinement. While the Center of Excellence building is under construction or rehabilitation, the Government will provide any necessary temporary space where training for secondary teachers and leaders can commence. This Sub-Activity integrates design features that are expected to contribute to the goal of increasing the number of women in teaching and leadership positions.

(ii) Teacher Training Activity

MCC Funding will support the development and delivery of trainings to current and future secondary school teachers in Timor-Leste. All current secondary teachers are expected to receive some form of training to improve their pedagogical skills, including student assessment, in the areas of numeracy, literacy, and soft skill development. A sub-set of current secondary teachers will receive additional training to receive their professional certification from the Center of Excellence. Future teaching candidates will be trained at the Center of Excellence and receive practical training at secondary schools throughout Timor-Leste. They will then be offered full-time employment in Ministry-supported Positions.

A. Course Development

Within this Sub-Activity, MCC Funding will support the development of course modules, course content, and corresponding materials. These materials will be designed based on needs assessments and current materials from existing institutions to target key pedagogical practices, including student assessment, in the areas of numeracy, literacy, and soft skills. Materials will be inclusive and use gender-responsive and disability-appropriate pedagogical approaches in the classroom.

B. Training Current Teachers

MCC Funding will support the training of current secondary teachers through two training streams.

The first stream of training aims to reach all current secondary teachers (general and technical) to improve the quality of teaching in the areas of numeracy, literacy, and soft skills. This training will be provided by Center of Excellence staff in collaboration with both the Ministry of Education Youth and Sport and the Ministry of Higher Education Science and Culture.

The second stream of training will provide intensive training to a sub-set of current secondary teachers to enable them to receive full professional certification from the Center of Excellence, similar to the training provided to teacher trainees. Such teachers may provide mentorship to other teachers.

C. Training Future Teachers

Under this Sub-Activity, MCC Funding will support training of candidate secondary school teachers at the Center of Excellence. Training will focus on the development of teacher trainees' approaches to instruction (pedagogy) that will improve secondary students' performance in the areas of numeracy, literacy, and soft skills. The training will be carried out at the Center of Excellence and in situ at secondary schools throughout Timor-Leste and will target the skills required by teacher trainees for student-centered learning.

(iii) School Leadership Training Activity

Under the School Leadership Training Activity, MCC Funding will support the training of school leaders to create effective schools through strong school leadership, both in school management and in terms of instructional leadership. Training will focus on competencies in school leadership, including gender and social inclusion and ICT in education.

A. Developing Curriculum and Materials

In this Sub-Activity, MCC Funding will support training for school leaders and prospective school leaders on the design and delivery of curriculum and training materials, including:

- Management (interdisciplinary structures and community outreach), instructional leadership, and teacher assessment;
- Good practices in development planning and curriculum frameworks;
- Developing/improving teaching and learning materials and resources for current leaders, including the uses of ICT in education;
- Key issues related to gender and social inclusion; and
- Providing support to enhance skills in the language of instruction.

B. Training Delivery

MCC Funding will support the training of every current senior secondary school leader and approximately 650 prospective school leaders during the Compact Term through professional development courses, resources, and ongoing support through the Center of Excellence. Prospective women school leaders will be intentionally targeted for involvement. During and after Center of Excellence training, school leaders (approximately five per school) will also become trainers and mentors in their own schools for current leaders. School leaders in training will receive ongoing training and support from Center of Excellence staff, using different modalities, including online modules and face-to-face meetings, to enhance their instructional leadership and school management practices.

(iv) Ensuring Excellence Activity

This Activity consists of three Sub-Activities, all of which focus on ensuring the accessibility and quality of the Center of Excellence's services.

A. Quality Assurance and Monitoring

MCC Funding under this Sub-Activity will support the creation of a quality assurance team at the Center of Excellence. This team will facilitate the ongoing evidence-based improvement and oversight of the Center of Excellence's programs by developing evaluation tools to regularly analyze and report on the effectiveness of trainings. These tools, including online surveys and assessment tasks, will allow for collection and analysis of data gathered from trainees after they have completed individual modules and the full program. Data and analysis will support the Center of Excellence's continuous improvement of courses, teaching styles, and learning materials, as well as its responsiveness to emerging needs that prompt new courses, components, or modules.

B. Women's Economic Empowerment in Education

This Sub-Activity aims to increase women's access to the profession of teaching and school leadership at the secondary level by removing barriers for women to enter employment opportunities in education. Efforts supported by MCC Funding to achieve this aim may include the development and implementation of fair and transparent recruitment and promotion processes, incentive schemes for women working in education, support systems for women teachers and school leaders (such as an association or mentorship programs), support for women to participate in trainings (for example, childcare or transport stipends), and leadership programs tailored for women in education. MCC Funding for this Sub-Activity will also support community engagement through workshops to address barriers to entry into the workforce faced by women.

C. Creating Language and ICT Supports

To support trainees in the areas of language and ICT, MCC Funding will provide both ICT equipment for the Center of Excellence and language laboratories at the Center of Excellence. Additionally, MCC Funding will support the formulation of an ICT team at the Center of Excellence to support blended and online/distance learning. The Government will also explore forming partnerships with existing institutions that work in the area of language training,

b. Beneficiaries.

Beneficiaries are assumed to include all upper secondary graduates who were taught by Project-trained teachers and who subsequently entered the labor force, as well as members of their households. The total number of beneficiaries is estimated to be 957,721 and analysis suggests that at least initially, the poor will be moderately represented amongst those benefiting from the project.

c. Environmental and Social Mitigation Measures.

Through the provision of secondary teacher and school leader trainings, the TALENT Project will deliver significant social benefits, including potential career advancement for participants and improved educational outcomes for students in Timor-Leste. While the location of the Center of Excellence remains to be determined, no major negative environmental or social impacts are

anticipated with the construction or rehabilitation of the Center of Excellence building. Anticipated impacts include typical construction phase environmental and social risks associated with modest sized vertical structures and operational risks. The Center of Excellence building is categorized as Category B because impacts are expected to be readily manageable with appropriate mitigation measures.

During the design phase of the Center of Excellence building, an environmental review will be undertaken and Environment and Social Management Plans and Health and Safety Management Plans will be developed and implemented during construction. Opportunities to address climate change via energy efficiency, resiliency, and the use of solar panels will be considered, as will use of low flow faucets. A project-specific TIP assessment will outline management measures for the Center of Excellence construction or rehabilitation, taking into consideration risks related to the operation of the Center of Excellence. If temporary buildings are used to house the Center of Excellence prior to completion of construction, then an environmental, health and safety evaluation may be undertaken, and any required remediation will be performed prior to taking over the temporary location. Waste management plans will address risks if building or room upgrades are needed, or disposal of old equipment is required. The Government will provide land for any building and will need to document land ownership and conduct any required land acquisition in accordance with IFC Performance Standards, to MCC satisfaction, and document that the parcel is fit for purpose, free of contamination, and located outside flood zones.

d. Social Inclusion and Gender Integration

In compliance with Section 3.2(e), this Project and all its Activities will be implemented in compliance with the MCC Gender Policy, the MCC Counter-Trafficking in Persons Policy, and the MCC Gender and Social Inclusion Operational Milestones and Procedures. The TALENT Project will integrate social inclusion and gender equality components throughout all the project activities. In addition, the standalone Women's Economic Empowerment in Education Sub-Activity seeks to increase the number of women overall in secondary education teaching positions and increase women's access to leadership positions in secondary education in Timor-Leste. To do so, the Women's Economic Empowerment in Education Sub-Activity will focus on creating an enabling environment for women within the education system by undertaking activities to promote fair and transparent recruitment and selection processes for teachers and school leaders, in addition to providing leadership and/or mentorship support and training opportunities.

The TALENT Project focuses on taking an inclusive approach to education by building content into the teacher training curriculum that promotes gender equality and inclusivity. To promote women's participation in the trainings, the program will consider the needs of women, such as prioritizing shorter-term trainings that are in-person, avoid conflicts with school schedules and childcare, and use incentives (such as transport allowances and childcare services).

For the Center of Excellence, it is important to ensure that risks related to TIP and gender-based violence are addressed both during the construction phase as well as during the operation of the Center of Excellence moving forward.

e. Donor Coordination.

Within the education sector, the majority of investments have benefited early childhood education and primary education, with key support coming from the Australian Department of Foreign

Affairs and Trade, the Australian Ministry of Foreign Affairs and Trade, UNICEF, and more recently, the Global Partnership for Education and the World Bank. A donor mapping exercise carried out by the Global Partnership for Education revealed a lack of large-scale, comprehensive interventions at the secondary level. The TALENT Project fills this gap and builds on the success experienced with interventions at the primary-level to support teachers, school leaders, and students.

f. USAID.

Current USAID programming in economic growth and trade and health complement the TALENT Project.

Over the last two years, USAID has carried out a youth assessment to inform the development of a new Country Development Cooperation Strategy released in 2020. The 2020-2025 Country Development Cooperation Strategy includes a target that calls for the economic inclusion of women and youth to be expanded. While the TALENT Project aims to improve the skills of youth, the intention of the USAID programming is to increase employment opportunities for those youth.

g. Sustainability**.**

A primary consideration in the design of the TALENT Project is the long-term sustainability of programmatic impacts and the operation of the Center of Excellence. Investments in training in strong coordination and collaboration with the ministry(ies) responsible for education, the National Institute for Professional Education Training ("***INFORDEPE***"), and existing higher education institutions are critical for the sustainability of programmatic inputs and impacts. Therefore, the TALENT Project includes investments in training for current secondary teachers and school leaders in order to foster a supportive and enabling environment for future teacher trainees certified who have completed training at the Center of Excellence to apply pedagogical best practices by also including investments in trainings for current secondary teachers and school leaders. Furthermore, such teacher trainees will have the support of a more robust school leadership team who have also been trained in the new practices. Finally, during the Compact Term, additional trainings will be provided to universities and institutions of higher education to help build capacity to strengthen candidates who may enter the Center of Excellence. Overall, the TALENT Project strikes a balance by complementing existing systems and filling gaps where they exist. It provides existing institutions with additional resources during the life of the Compact to carry out surge training for individuals that are already in the system, while the new Center of Excellence readies itself to train individuals to fill future positions in secondary schools. Operations and maintenance planning for the Center of Excellence building will be included by the Government in post-construction budget cycles, following an initial Compact-funded investment in building operations and maintenance, as detailed in the multi-year financial plan. Members of the Government will be closely engaged on the executive board of the Center of Excellence to assist with planning and ensure that there is absorptive capacity at the secondary schools for the newly trained teachers and leaders. In addition, the technical review committee created by the Government to oversee the design of the TALENT Project may continue to provide support and advice to the Board of Directors of MCA-Timor-Leste and to the relevant MCA-Timor-Leste staff to ensure ongoing technical support for the TALENT Project.

h. Policy, Legal and Regulatory Reforms.

There are two key legal and regulatory reforms that will be required for the TALENT Project. The first is the legal recognition of the Center of Excellence as an autonomous institution under the Ministry of Higher Education Science and Culture via a decree-law.

In addition, it is anticipated that the Government will introduce changes to Education System Framework Law (Law 14/2008) to require secondary school teachers to receive professional certification from the Center of Excellence in order to be employed in Ministry-supported Positions. Current legislation requires secondary teachers to hold an undergraduate degree as their sole qualification. With this reform, all future teachers will be required to hold a professional certification to serve as a secondary school teacher. It should also be noted that a portion of current secondary school teachers will also be professionally certified during the life of the Compact. Such teachers will have to meet the same required standards as future candidates, including mandatory trainings and demonstrated competency. Furthermore, if teachers wish to pursue leadership positions, they will be required to participate in mandatory trainings and meet established requirements.

C. IMPLEMENTATION FRAMEWORK

1. MCA-Timor-Leste

(a) MCA-Timor-Leste Creation.

In accordance with this Compact and in view of implementing the Program, the Government will create, through a decree-law to be enacted by the Council of Ministers, a public institute ("***instituto publico***") having legal personality and financial autonomy, named "***MCA-Timor-Leste***" with its head office located in Dili. The administrative and financial organization of MCA-Timor-Leste, as well as the general rules of its governance, will be promulgated by such decree-law.

(b) Independence and Autonomy.

MCA-Timor-Leste shall have operational and legal independence and full decision-making autonomy, including, inter alia, the ability, without consultation with, or the consent or approval of, any other party, to: (i) enter into contracts in its own name, (ii) sue and be sued, (iii) establish bank accounts with a financial institution in its own name and hold MCC Funding and the WSD Contribution in those accounts, (iv) expend MCC Funding and the WSD Contribution, (v) engage contractors, consultants and/or grantees, including, without limitation, procurement and fiscal agents, all in compliance with Section 3.6, and (vi) competitively engage one or more auditors of its accounts. In addition, any acts, contracts, and further documentation and procedures undertaken by MCA-Timor-Leste will not be subject to the preliminary supervisory power established in articles 30.º to 34.º of the Law 9/2011 of 17 August (with the amendments introduced by Law 3/2013), on the *Câmara de Contas do Tribunal Superior Administrativo, Fiscal e de Contas* (Timor-Leste's Audit Court). Therefore, it is clear between the Parties that any such acts carried out by MCA-Timor-Leste using MCC Funding or the WSD Contribution, as well as the effect thereby produced are not, in any circumstances, and regardless of their value, subject to any type of approval or review by the *Câmara de Contas do Tribunal Superior Administrativo, Fiscal e de Contas.*

(c) Employment Requirements.

The Parties agree that the Law No. 4/2012, of 21 February shall apply to MCA-Timor-Leste. The Government shall regulate and specify any applicable rules deemed necessary to clarify any aspects of the legal regime applicable to MCA-Timor-Leste through a decree-law and to ensure MCA-Timor-Leste has the authority to recruit staff for a period exceeding 6 years during the Compact term through the Compact closure period. MCA-Timor-Leste will be permitted to extend such employment contracts ending at the expiration of the Compact Term for a closure period not to exceed 120 days to allow for the winding down of the Program, if deemed necessary by MCA-Timor-Leste. Such extension will not void the nature of or the category of the contract. For the avoidance of doubt, severance will not be due upon the expiration of such employment contracts.

MCA Timor-Leste will be permitted to: (a) arrange for any foreign personnel (staff, individual consultants or personnel of firms) providing goods, works or services under the Compact along with their family to be provided promptly with any necessary entry or work visas, and any such visas and their renewal will be exempt from any fees or costs payable to the Government; and (b) provide the foreign personnel (staff, individual consultants or personnel of firms) providing goods, works or services under the Compact with work permits and such other documents as shall be necessary to enable the foreign personnel to perform services and to remain in Timor-Leste for the duration of the Compact, without the need to exit the country for any period in the interim.

Foreign staff of MCA-Timor-Leste who are not resident in Timor-Leste at the time of their hiring are guaranteed the right to transfer their salaries or remuneration outside Timor-Leste without any restrictions.

(d) Corporate Governance.

The governance of MCA-Timor-Leste shall be set forth in more detail in the Program Implementation Agreement and the constitutive documents and internal regulations of MCA-Timor-Leste (or as otherwise agreed in writing by the Parties). Remuneration for members of the MCA-Timor-Leste Board of Directors shall be consistent with the MCC Program Guidelines.

MCA-Timor-Leste shall be administered, managed and supported by a board of directors (the "***Board of Directors***") and an operations unit (the "***Operations Unit***").

(e) Board of Directors.

The Board of Directors shall have ultimate responsibility for the oversight, direction, and decisions of MCA-Timor-Leste, as well as the overall implementation of the Program. The Board of Directors shall be comprised of seven voting members and one or more non-voting observers. As of the date hereof, the voting members of the Board of Directors shall include representatives from each of the following:

- Office of the Prime Minister (one representative);
- Office of the Presidency of the Council of Ministers (one representative);
- Ministry responsible for water, sanitation, and drainage infrastructure sectors (one representative);
- Ministry responsible for finance (one representative);

- Ministry responsible for education (one representative);
- Women's organizations (one representative); and
- Civil society (one representative)

The number of voting members may be changed through amendments to MCA-Timor-Leste's constitutive documents, while the identity of the voting members may be changed through changes to the Government's relevant decrees regarding MCA-Timor-Leste, in both cases, with MCC's approval. The process of selecting the members of the Board of Directors shall be further stipulated in the government decree-law setting out the legal framework for MCA-Timor-Leste. MCC's resident country director and the Executive Director of MCA-Timor-Leste shall be non-voting observers of the Board of Directors.

(f) Operations Unit.

The Operations Unit shall report to the Board of Directors and have principal responsibility for the day-to-day operations and management of MCA-Timor-Leste and implementation of the Program. The Operations Unit shall be led by the Executive Director and shall be composed of the Key Staff (as defined in the PIA) as agreed between the Parties and selected after an open, competitive, and non-discriminatory recruitment and selection process (or its equivalent). The MCA-Timor-Leste Executive Director will be selected in the same manner and the MCA-Timor-Leste Board of Directors will solely be responsible for considering, approving, or disapproving the hiring and dismissal of the Executive Director, subject to MCC's written approval. The Key Staff shall be supported by appropriate additional staff to enable the Operations Unit to execute its roles and responsibilities.

MCA-Timor-Leste shall develop and implement a stakeholder engagement plan for sustaining public consultation and engagement with the private sector, civil society organizations, and organizations representing women and vulnerable groups and allow them opportunities to provide advice and input.

2. Implementing Entities.

Subject to the terms and conditions of this Compact, the Program Implementation Agreement and any other related agreement entered into in connection with this Compact, the Government, acting through MCA-Timor-Leste (or prior to MCA-Timor-Leste's establishment, the Compact Development Team), may engage one or more entities of the Government to implement and carry out any Project or Activity (or a component thereof) under this Compact (each, an "***Implementing Entity***"). The appointment of any Implementing Entity shall be subject to review and approval by MCC. The Government shall ensure that the roles and responsibilities of each Implementing Entity and other appropriate terms are set forth in an agreement, in form and substance satisfactory to MCC (each an "***Implementing Entity Agreement***").

3. Fiscal Agent.

Unless MCC agrees otherwise in writing, the Government, acting through MCA-Timor-Leste (or prior to MCA-Timor-Leste's establishment, the Compact Development Team), shall engage a fiscal agent (a "***Fiscal Agent***"), which shall be responsible for assisting the Government with its fiscal management and assuring appropriate fiscal accountability of MCC Funding, and whose duties shall include those set forth in the Program Implementation Agreement and such agreement

as the Government enters into with the Fiscal Agent, which agreement shall be in form and substance satisfactory to MCC.

4. Procurement Agent.

Unless MCC agrees otherwise in writing, the Government, acting through MCA-Timor-Leste (or prior to MCA-Timor-Leste's establishment, the Compact Development Team), shall engage one or more procurement agents (collectively, the "***Procurement Agent***") to carry out and certify specified procurement activities in furtherance of this Compact. The roles and responsibilities of the Procurement Agent shall be set forth in the Program Implementation Agreement or such agreement as the Government enters into with the Procurement Agent, which agreement shall be in form and substance satisfactory to MCC. The Procurement Agent shall adhere to the procurement standards set forth in the MCC Program Procurement Guidelines and ensure procurements are consistent with the procurement plan adopted by the Government pursuant to the Program Implementation Agreement, unless MCC agrees otherwise in writing.

ANNEX II

MULTI-YEAR FINANCIAL PLAN SUMMARY

This Annex II summarizes the Multi-Year Financial Plan for the Program.

A. General.

A multi-year financial plan summary ("***Multi-Year Financial Plan Summary***") is attached hereto as Exhibit A to this Annex II. By such time as specified in the Program Implementation Agreement, the Government shall adopt, subject to MCC approval, a multi-year financial plan that includes, in addition to the multi-year summary of estimated MCC Funding, the annual and quarterly funding requirements for the Program (including administrative costs) and for each Project and Activity, projected both on a commitment and cash requirement basis. The multi-year financial plan for the WSD Contribution will be set forth in Annex IV to the Program Implementation Agreement.

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EXHIBIT A TO ANNEX II

MULTI-YEAR FINANCIAL PLAN SUMMARY

COMPONENT	Compact Facilitation Funding (CFF)	Year 1	Year 2	Year 3	Year 4	Year 5 + Program Closure	TOTAL COMPACT FUNDING
WATER SANITATION & DRAINAGE (WSD)	$33,372,500	$42,776,013	$75,502,718	$75,155,474	$49,635,192	$31,763,153	$308,205,050
Activity 1: Water Disinfection	$404,710	$1,133,188	$4,168,514	$2,321,271	$121,413	$121,413	$8,270,509
Activity 2: Sanitation	$31,792,790	$39,852,825	$65,675,182	$65,675,182	$46,861,279	$28,989,240	$278,846,498
Activity 3: Associated Drainage			$4,469,022	$4,469,022			$8,938,044
Activity 4: Institutional Reform	$925,000	$800,000	$200,000	$1,700,000	$1,662,500	$1,662,500	$6,950,000
Activity 5: Household Water and Hygiene	$250,000	$990,000	$990,000	$990,000	$990,000	$990,000	$5,200,000
TEACHING & LEADING THE NEXT GENERATION OF TIMORESE (TALEN	$3,000,000	$5,485,986	$8,050,665	$8,504,830	$9,034,938	$6,114,119	$40,190,538
Activity 1: Center of Excellence (CoE)	$1,500,000	$1,526,045	$2,626,045	$3,526,045	$3,526,045	$1,895,274	$14,599,454
Activity 2: Teacher Training	$1,000,000	$2,560,902	$2,815,160	$3,269,319	$2,509,382	$2,509,379	$14,664,142
Activity 3: School Leadership Training	$250,000	$709,566	$1,019,990	$1,019,993	$1,019,993	$1,019,993	$5,039,535
Activity 4: Ensuring Excellence	$250,000	$689,473	$1,589,470	$689,473	$1,979,518	$689,473	$5,887,407
MONITORING & EVALUATION	$450,000	$1,625,000	$800,000	$1,175,000	$950,000	$1,800,000	$6,800,000
PROGRAM ADMINISTRATION	$14,229,129	$9,518,647	$9,452,700	$9,615,202	$9,750,036	$12,238,698	$64,804,412
Activity 1: MCA Timor-Leste Administrative Expenses	$11,829,129	$7,118,647	$7,052,700	$7,215,202	$7,350,036	$8,998,698	$49,564,412
Activity 2: Procurement Agent	$1,150,000	$1,150,000	$1,150,000	$1,150,000	$1,150,000	$1,550,000	$7,300,000
Activity 3: Fiscal Agent	$1,150,000	$1,150,000	$1,150,000	$1,150,000	$1,150,000	$1,550,000	$7,300,000
Activity 4: Audits	$100,000	$100,000	$100,000	$100,000	$100,000	$140,000	$640,000
MCC TOTAL INVESTMENT	$51,051,629	$59,405,646	$93,806,083	$94,450,506	$69,370,165	$51,915,970	$420,000,000

ANNEX III

COMPACT MONITORING & EVALUATION SUMMARY

This Annex III summarizes components of the monitoring and evaluation plan for this Compact ("***M&E Plan***"). The actual structure and content of the M&E Plan, which may differ from those specified in this Annex III, shall be agreed to by MCC and the Government in accordance with MCC's *Policy for Monitoring and Evaluation of Compacts and Threshold Programs* (the "***MCC M&E Policy***"). In addition, the M&E Plan may be modified from time to time as described in the MCC M&E Policy without requiring an amendment to this Annex III. The M&E Plan shall be posted publicly on the MCC Website and updated as necessary.

1. Objective

MCC and the Government shall formulate and agree to, and the Government shall implement or cause to be implemented, an M&E Plan that explains in detail how and what MCC and MCA-Timor-Leste shall (i) monitor to determine whether the Projects are on track to achieve their intended results ("***Monitoring Component***"), and (ii) evaluate to assess implementation strategies, provide lessons learned, compare costs to benefits, and estimate the impact of compact interventions ("***Evaluation Component***"). The M&E Plan shall summarize all indicators that must be reported to MCC on a regular basis, as well as a description of any complementary data to be collected for evaluation of the Program. The M&E Plan shall also include any monitoring and evaluation (***"M&E"***) requirements that MCA-Timor-Leste must meet in order to receive Disbursements, and shall serve as a communication tool so that MCA-Timor-Leste staff and other stakeholders clearly understand the objectives and targets MCA-Timor-Leste is responsible for achieving. The results of M&E activities, measured by monitoring data and evaluations, shall be made publicly available on the website of MCA-Timor-Leste and on the MCC Website.

2. Program Logic

The program logic is an explanatory model that demonstrates how specific interventions lead to the expected outcomes, objectives, and goal of a compact program. This model reflects the design and implementation plans of a program, noting planned activities and outputs and the sequencing of results. Secondly, it reflects the economic logic, which forms the basis of the cost-benefit analysis that produces the Economic Rate of Return ("***ERR***"). Lastly, it notes critical risks and assumptions related to achieving results. The program logic forms the basis of the M&E Plan.

2.1 Logic Models

A description of the logic underlying each Project is included below:

Project 1: Water, Sanitation and Drainage Project

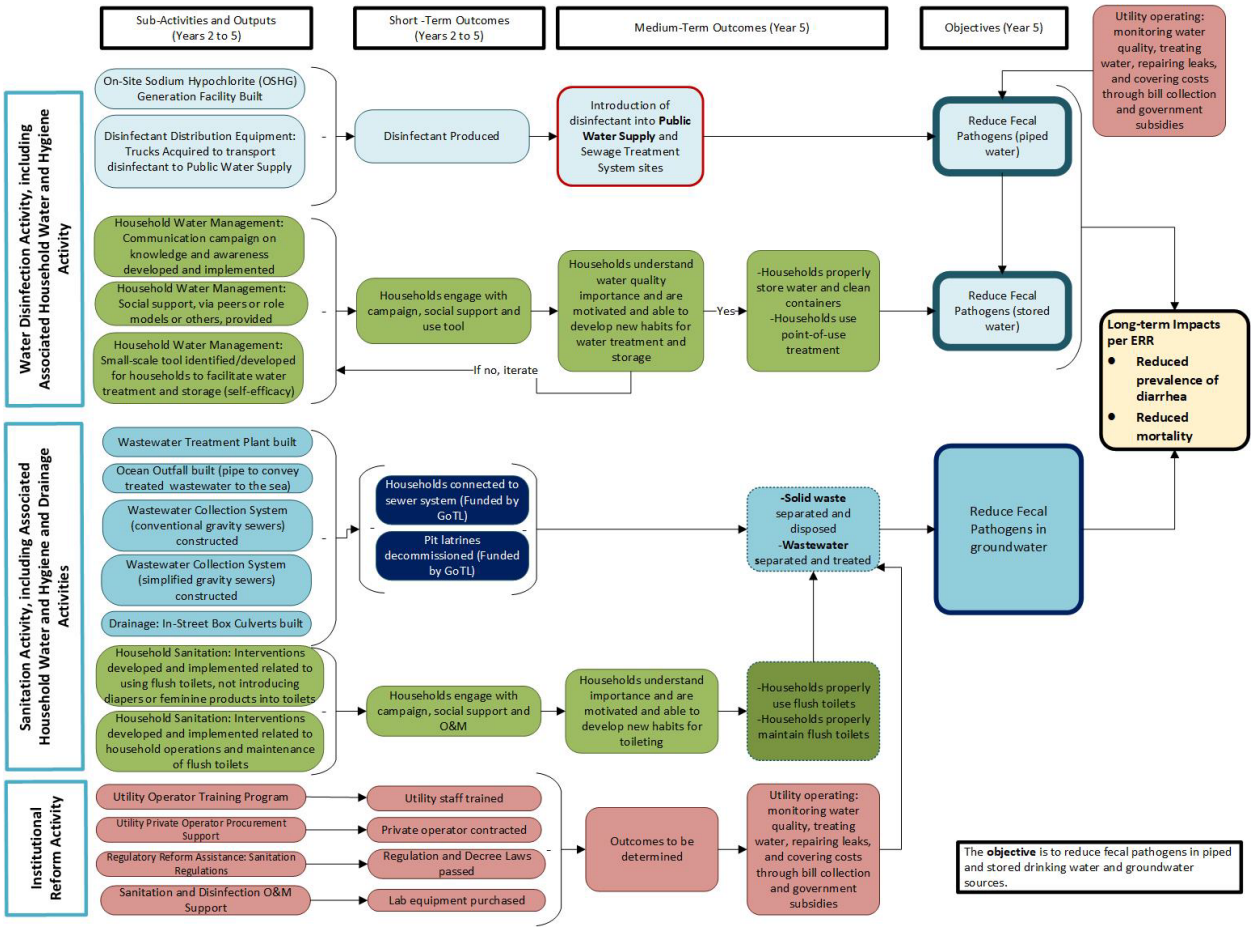
The objective of the **Water, Sanitation and Drainage Project** is to reduce fecal pathogens in piped and stored drinking water, and groundwater. The Project responds to the binding constraint of low human capital—specifically, to Timor-Leste's high rate of stunting, where more than half of children under the age of five are stunted. The high incidence of fecal pathogens in the water system was identified as one of the root causes of this constraint, based on Government-provided water-quality data, which indicated widespread fecal contamination of the public water supply in Dili not localized to a certain water source.

The Project's theory of change, as shown below, starts with building key infrastructure, supporting institutional and regulatory reform, and supporting key household sanitation and water management practices.

The Water Disinfection Activity will construct the OSHG plant to provide a reliable supply of disinfectant for treating water via a new water network in Dili and four nearby districts. The logic of the Water Disinfection Activity is to reduce disease-causing pathogens in piped water through the production of disinfectant and the application of the disinfectant in the supply of water to households and businesses in Dili and four neighboring districts, resulting in drinking-quality water at the household-level. Disinfected water will be provided in Dili through a new water network funded by the Government and other donors.

To manage the results risks of delivering uncontaminated drinking water, the Project is coordinating with the World Bank and the Asian Development Bank's piped-water improvement projects and includes the Household Water and Hygiene Activity. MCC understands that the Government plans to use Compact-funded disinfectant for their projects and incorporate training and capacity building to BTL and ANAS in order to ensure regular and routine water treatment and monitoring of water quality during and beyond the Compact Term. To ensure households know how to treat and store water properly, the Project includes the Household Water Management Sub-Activity to improve household water storage habits and point-of-use treatment to address intermittent piped-water supply.

To reduce fecal pathogens in the groundwater, the Sanitation Activity includes establishing a sewer network with mandatory service connections, the Wastewater Treatment Plant, a septage receiving facility and biosolids disposal operation, and an open ocean outfall. The treated effluent will be disinfected with sodium hypochlorite generated by the OSHG plant. The Associated Drainage Activity includes constructing specific portions of the drainage system in areas where Compact-funded sewerage system will be constructed. The Project relies on integral investments from the Government as well as related institutional strengthening and behavior-change interventions. Realizing the objective of cleaner groundwater will require that enough households connect to the new sewer system and discontinue use of pit latrines and septic tanks. Household connections, and pit-latrine and septic-tank decommissioning is intended to be funded by the Government as part of the WSD Contribution. In addition, the complementary Household Sanitation Sub-Activity will focus on key toileting behaviors, including on properly managing and regularly maintaining flush toilets. Finally, given that the water utility is new and inexperienced, the Project includes an intense five-year institutional capacity-building component that is expected to extend for at least three years post-Compact Term to help mitigate related sustainability and results risks.



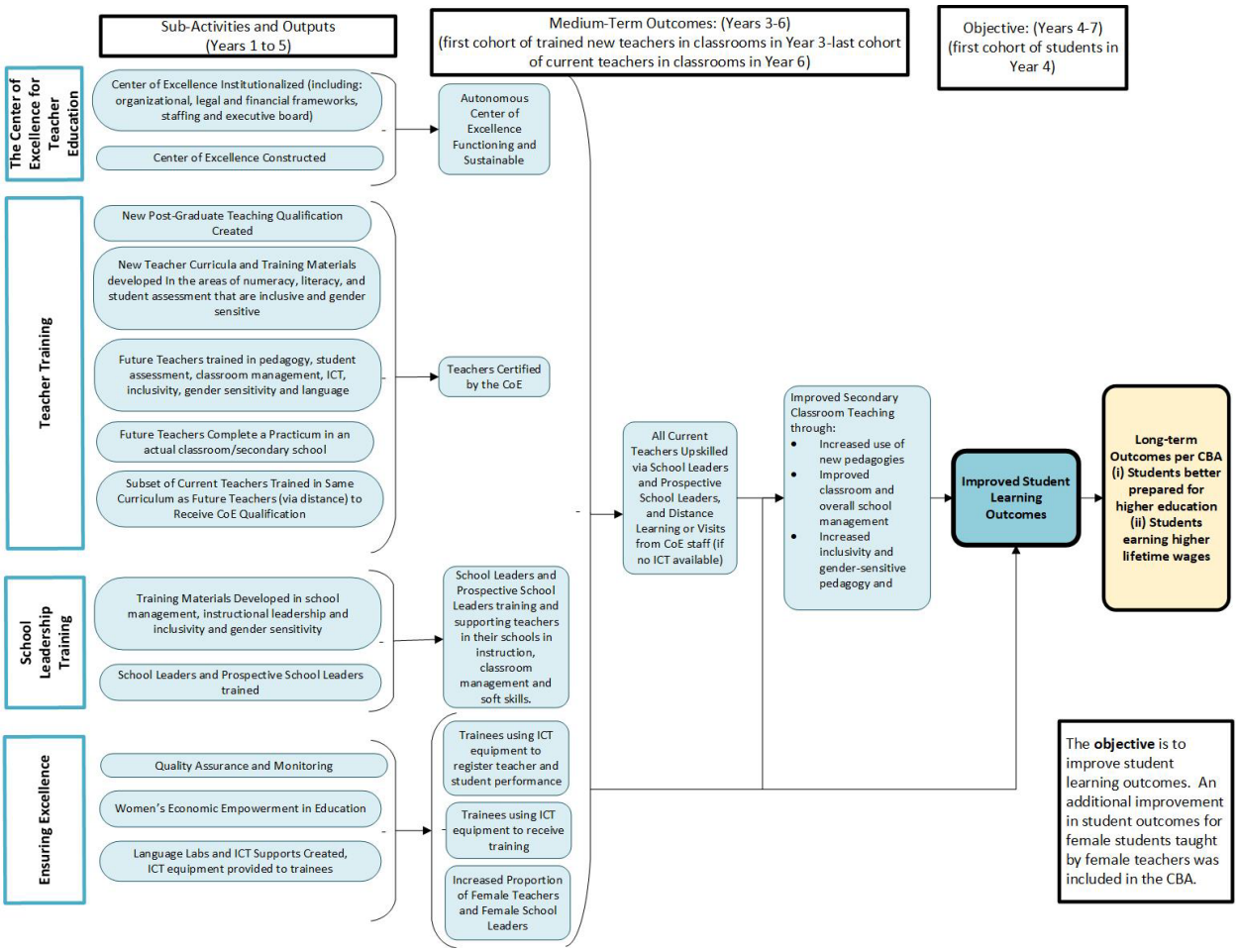
Project 2: Teaching and Leading the Next generation of Timorese (TALENT) Project

The **TALENT Project** responds to the binding constraint of low human capital, as noted in the MCC constraints analysis: "in the workforce, the lack of tertiary education is costly to firms and has resulted in 30-40% of professional jobs being filled by foreign nationals." The root causes of this constraint were traced to low-quality secondary education, including student deficiencies in soft skills, numeracy and literacy.

The Project will construct and institutionalize a secondary school teacher training institute, the Center of Excellence. The Project will also (i) create and deliver new training curricula to both future and current secondary-school teachers and (ii) create and deliver training to school leaders and prospective school leaders, who will in turn help train and mentor current teachers in their schools. Lastly, the Project will embed quality assurance monitoring, women's economic empowerment, language labs, and ICT services in the Center of Excellence to support trained teachers and school leaders.

To improve secondary instruction and student learning, the Project will need to manage results risks. First, instruction is currently delivered in a language students may not have mastered. Improving teachers' mastery of Portuguese is part of the Project, but it remains that the students may not fully understand the language of instruction. Second, the Center of Excellence is being created because the current institutions that train teachers have not been able to adequately prepare teachers for the secondary classroom. To avoid creating another similar institution, the

Project has included quality assurance monitoring into the structure of the Center of Excellence, competitive and transparent recruitment of staff for the Center of Excellence, and a board to oversee the Center of Excellence. Third, the Center of Excellence will directly train a cadre of school leaders and prospective school leaders (current teachers) who are expected to impart this training to the teachers in their schools. To mitigate this risk, the Project is training up to five teachers and school leaders per school, and the Center of Excellence will provide routine oversight in the field.



2.2 Risks and Assumptions

The M&E Plan shall also outline key assumptions and risks that underlie the accomplishment of the theory of change summarized in the program logic. However, such assumptions and risks shall not excuse any Party's performance unless otherwise expressly agreed to in writing by the other Party. The known assumptions and risks include:

Project 1: Water, Sanitation and Drainage Project

Assumptions for Outputs	*Assumptions for Outcomes*	*Assumptions for Objective*	*Assumptions for Long-term outcomes per CBA*

Access to required land is granted. Project retains support of GoTL[2], even when government changes.	Technical staff are trained to operate the new infrastructure. Disinfectant is delivered to all essential sites with indicated regularity. Utility monitors water quality to deliver appropriate levels of disinfectant. Construction quality is high and includes considerations for climate change-especially during the rainy season. Electricity disruptions do not harm the system. Open drainage canals are free of debris and trash, so drains do not overflow. Households can identify when their water is contaminated. The flush-toilet market for supplies and expertise (plumbers) will be available and affordable.	There is constant, positive pressure in pipes, so pathogens do not cause recontamination of piped water. There is sufficient water supply in the dry season to keep sewage moving and provide water to connected households. Cost-Recovery Plan developed and implemented Enough households connect to the sewage system to sufficiently reduce human waste burden in the environment. Other sources of contamination (animals, etc.) are not major drivers of contamination. Households use only stored water or water from pipes for consumption. Customers can afford and do pay their water bills Government takes ownership of the new system and performs routine operation and maintenance for long-term sustainability.	A key major cause of illness was from contaminated water and not from other causes, such as undernourishment. People benefit at places where they spend major amounts of time, including at home and at work.

Project 2: Teaching and Leading the Next generation of Timorese (TALENT) Project

Assumptions for Outputs	*Assumptions for Outcomes*	*Assumptions for Objective*	*Assumptions for Long-term outcomes*
GoTL allocates reasonable budget for education. Land or appropriate building is allocated for CoE[3] and transport issues are taken into consideration. CoE has an institutional home, is supported by all stakeholders, and has credibility. GoTL can forecast the future need for	GoTL operates and maintains the CoE beyond the Compact Term with the appropriate staffing and trainers to run the training center. CoE is well managed, accountable, and transparent. CoE curriculum & training is adequate and appropriate. Teacher pedagogy complements secondary school curriculum. There is an adequate process to certify secondary school	Future teachers who have credentials are placed into positions in Timor-Leste. Teachers are not absent from the job. Teachers transfer new and/or improved pedagogy and curriculum into the classroom. Teachers can confidently use the determined language (Portuguese). School leaders transfer knowledge and are motivated to improve school management. There are routine current teacher checks and training opportunities.	Secondary (or higher) education and the skills gained are valued in Timor-Leste. Secondary students can transfer their skills to the labor market in Timor-Leste or to attain higher education. After attaining higher education, students enter the labor market in Timor-Leste.

[2] For use in the tables in this Annex III and the M&E Plan, "GoTL" refers to the Government.

[3] For use in the tables in this Annex III and the M&E Plan, "CoE" refers to the Center of Excellence.

secondary teachers and fills that need. GoTL will retire older teachers to make room for future teachers. Curriculum reform is addressed and teachers are trained in the correct curriculum content. Teachers want to and can improve their teaching methods. There is a demand for secondary teaching positions and acquiring the required credentials. Enough future teachers who meet the prerequisites apply to the CoE, including female teachers. The CoE secondary teacher education is affordable. Language won't be a barrier to enter the CoE. INFORDEPE trains trainers and updates training materials.	teachers and this process is being used. Future teachers can find teaching positions in Timor-Leste and will be adequately paid for their credentials. Future teachers know both Portuguese and local language. INFORDEPE is adequately staffed to train/re-train current teachers /school leaders. School leaders and prospective school leaders adequately train and support teachers in their schools (cascade model).	There is routine teacher supervision and support with an accountability and reward mechanism. Parents and the local community are engaged in the learning process and value secondary education. Secondary students are enrolled in and attending secondary school. Secondary students can learn in the determined language. Secondary schools have adequate infrastructure to promote learning and be effective. National exams are in an accessible language for secondary students.	

2.3 Projected Economic Benefits and Beneficiaries

The economic analysis of compact programs consists of a cost-benefit analysis, which is summarized by an estimated ERR and a beneficiary analysis. This analysis for the Program is summarized below.

2.3.1 Projected Economic Benefits

Cost-Benefit Analysis ("***CBA***") is completed to determine the cost effectiveness of MCC investments. A threshold of 10% is typically used to inform investment decisions.

The underlying economic logic of the CBA models follow the project logics depicted above. Additionally, several of the variables included in the model become key indicators to monitor the Program and evaluate whether the Program reached the intended outcomes, as well as determining its cost effectiveness. Each model includes estimated benefits and the total estimated costs to reach

those intended benefits, whether costs are incurred by MCC, another donor, the Government, or another entity. These are typically examined over a 20-year period, unless otherwise noted.

The table below provides a summary of the estimated ERRs across this Compact's projects. The text following the table describes the general methodology and logic of the CBA model(s), as well as the key benefit streams, costs, assumptions, risks, etc. for each of the calculated ERRs.

Project/Activity	**Estimated Economic Rates of Return**
WSD Project	7.5-11.7%
TALENT Project	15.6%

Project 1: WSD Project

The benefits of the WSD Project are derived from improved health outcomes of the beneficiary population. Recent literature has found that reducing disease burden through water, sanitation, and hygiene interventions require a "transformative" set of interventions that are complementary and comprehensive.

Thus, the WSD Project is designed to complement and enhance the impact of other investments in the water and sanitation sector in Timor-Leste, in line with a master plan developed by the Government. The WSD Project will construct a wastewater infrastructure backbone in Dili, which will be expanded upon in the future by other donors and financiers so that the system can function efficiently and at a low cost. Therefore, the full benefits (and thus the ERR) of the Project depend on whether additional investment occurs that builds on the backbone provided through the WSD Project.

MCC evaluated a range of plausible scenarios based on the extent to which additional investments leverage Project-funded infrastructure. The estimated ERR for the Project without subsequent investments from other sources (e.g., the Government, other donors, and/or the private sector) is 7.5 percent (lower ERR scenario). If the Government's entire master plan is implemented by 2036, the ERR of the combined WSD Project and additional buildout is estimated at 11.7 percent (higher ERR scenario). MCC determined the higher ERR scenario to be sufficiently probable to proceed with the WSD Project. Given the expected long-term benefits, including serving as a foundational investment for the system, MCC decided to proceed with the WSD Project even in the lower ERR scenario.

The benefits of the WSD Project are derived from improved health outcomes of the beneficiary population. The largest benefit stream driving the rate of return is increased child survival.

Project 2: TALENT Project

The economic analysis of the TALENT Project is based on the aggregate earnings of all projected upper secondary graduates who enter the labor force. The program is assumed to result in increased human capital through the training of teachers and school leaders and the increase in the share of

secondary school teachers who are female. Students taught by program-trained teachers are expected to be subsequently compensated in the labor market via higher wages.

Given the large number of beneficiaries, benefits are large in absolute terms and relative to costs, and the baseline economic rate of return is estimated to be 15.6%.

3.3.2 Projected Program Beneficiaries

The M&E Plan shall also define the persons or entities expected to benefit from the Program. Beneficiary analysis is an extension of the CBA and seeks to disaggregate the total increase in income to determine specifically which segments of society will benefit from the Projects and Activities. MCC considers beneficiaries of Projects and Activities to be those people who experience better standards of living as a result of the Project or Activity (as the case may be) through higher real incomes.[4] For definitional purposes it is important to note that not all project participants are necessarily project beneficiaries. The expected beneficiaries of this Compact over 20 years (unless otherwise noted) are shown in the following table. The text below the table provides a description of the beneficiaries.

Project/Activity	**Estimated Beneficiaries***
WSD Project: Water Disinfection	429,000 residents of Dili 64,000 residents of four Dili-adjacent districts
WSD Project: Sanitation	301,000 residents of Dili
TALENT Project	957,000 students

*There is some anticipated overlap in beneficiaries across the projects so the beneficiaries cannot simply be added together to estimate total compact beneficiaries.

Because poor households suffer higher disease burden than non-poor households, maximizing disease burden reduction meant maximizing the inclusion of the poor. The footprint of the sanitation system was thus chosen to maximize inclusion of poor households, given engineering and design constraints. Thus, while the poor represent just over 20% of the beneficiary population of the WSD Project, around 30% of the disease burden reduction and lives saved is expected to come from poor households.

Given the broad scope of the TALENT Project, beneficiaries are assumed to include all upper secondary graduates who were taught by Project-trained teachers and who subsequently entered the labor force, as well as their co-householders. The total number of beneficiaries is estimated to be 957,721, and the beneficiary analysis suggests that at least initially, the poor will be moderately under-represented amongst beneficiaries.

[4] As used in this Compact, the term "beneficiary" has the meaning described in MCC's *Guidelines for Economic and Beneficiary Analysis*.

4. Monitoring Component

As defined in the MCC M&E Policy, monitoring is the continuous, systematic collection of data on specified indicators to provide indications of progress toward objectives and the achievement of intermediate results along the way. To monitor progress toward the achievement of results of this Compact, the Monitoring Component of the M&E Plan shall identify (i) the Indicators (as defined below), (ii) the definitions of the Indicators, (iii) the sources and methods for data collection, (iv) the frequency for data collection, (v) the party or parties responsible for collecting and analyzing relevant data, and (vi) the timeline for reporting on each Indicator to MCC. It should be noted that some indicators shall continue to be tracked after the Compact Term as necessary.

4.1 Outcome, Output, and Process Indicators

The full M&E Plan shall measure the results of the Program using quantitative, objective, and reliable data ("***Indicators***").

4.1.1 Baselines

The full M&E Plan shall establish baselines for every Indicator (each a, "***Baseline***"). An Indicator's Baseline should be established prior to the start of the corresponding Project, Activity and/or Sub-Activity. Baselines demonstrate that the problem can be specified in measurable terms and are thus a pre-requisite for adequate intervention design. The Government shall collect Baselines on the selected Indicators or verify already collected Baselines where applicable.

4.1.2 Benchmarks and Targets

The full M&E Plan shall establish a benchmark for each Indicator that specifies the expected value and the expected time by which the result shall be achieved ("***Target***").

4.1.3 Disaggregation of Indicators

The full M&E Plan shall indicate which Indicators shall be disaggregated by gender, income level, and age, and beneficiary types to the extent practical and applicable.

4.1.4 Outcome, Output, and Process Indicators

Outcome, output and process Indicators are all defined in the MCC M&E Policy.

4.1.5 Common Indicators

MCC's Common Indicators (as described in the MCC M&E Policy) shall also be included as relevant.

4.1.6 Revisions to Indicators and Targets

Subject to prior written approval from MCC and in accordance with the MCC M&E Policy, the Government may add Indicators or refine the definitions and Targets of existing Indicators.

4.1.7 Indicator Tracking Table

MCA-Timor-Leste must report to MCC on monitoring Indicators in the M&E Plan on a quarterly basis using an Indicator Tracking Table ("***Indicator Tracking Table***" or "***ITT***") in the form provided by MCC. No changes to Indicators, Baselines or Targets may be made in the ITT until the changes have been approved in the M&E Plan. Additional guidance on Indicator reporting is contained in the *MCC Guidance to Accountable Entities on the Quarterly Disbursement Request Package*. In the case that MCA-Timor-Leste submits a six-month disbursement request, the ITT must still be submitted quarterly.

The M&E Plan shall contain the monitoring Indicators listed in Schedule A.

5. Evaluation Component

While good program monitoring is necessary for program management, it is not sufficient for assessing ultimate results. MCC therefore advocates the use of different types of evaluations as complementary tools to better understand the effectiveness of its programs. As defined in the MCC M&E Policy, evaluation is the objective, systematic assessment of a program's design, implementation and results. MCC is committed to making its evaluations as rigorous as warranted in order to understand the causal impacts of its programs on the expected outcomes and to assess cost effectiveness.

5.1 Independent Evaluations

Every Project must undergo a comprehensive, independent evaluation (impact and/or performance) in accordance with the MCC M&E Policy. The Evaluation Component of the M&E Plan shall describe the purpose of the evaluation, methodology, timeline, required MCC approvals, and the process for collection and analysis of data for each evaluation. All independent evaluations must be designed and implemented by independent, third-party evaluators. If the Government wishes to engage an evaluator, the engagement shall be subject to the prior written approval of MCC. Contract terms must be acceptable to MCC and ensure non-biased results and the publication of results.

For each independent evaluation, MCA-Timor-Leste is expected to review and provide feedback to independent evaluators on the evaluation design reports, evaluation materials (including questionnaires), baseline report (if applicable), and any interim/final reports in order to ensure proposed evaluation activities are feasible, and final evaluation products are technically and factually accurate.

Project 1: WSD Project

The evaluation methodology will be an impact evaluation if a comparable control group can be identified. If not, the evaluation methodology will be a performance evaluation. The Evaluation Questions follow:

- Was the program implemented according to plan (in terms of quantity and quality of outputs?)
- Did the program achieve its targeted outcomes, particularly its stated objective of reducing fecal pathogens in piped and stored water and in groundwater, in the timeframe and magnitude expected? Why or why not? The outcomes related to MCC's learning agenda include household water and toileting practices, household drinking-water quality, and utility operation. Depending on statistical power and program implementation, MCC may be able to assess the project's contribution to lowering disease prevalence.
- Do the results of the program justify the allocation of resources toward it?

Project 2: TALENT Project

The Evaluation Methodology for this Project is yet to be finalized. There may be an opportunity to compare outcomes between teachers trained earlier in the Project with those trained later in the project. In addition, there may be an opportunity to assess the cascade approach in different sized schools, i.e., does the percentage of teachers receiving centralized training affect teachers' adoption of new practices.

The Evaluation Questions follow:

- Was the program implemented according to plan (in terms of quantity and quality of outputs?)
- Did the program achieve its targeted outcomes, particularly its stated objective of improving secondary-student learning outcomes, in the timeframe and magnitude expected? Why or why not? The outcomes related to the learning agenda include changes in classroom management and content, effects of female teachers on girls' and boys' learning and effects of the cascade approach.
- Do the results of the program justify the allocation of resources toward it?

6. Data Quality Reviews

Data Quality Reviews ("***DQR***") are a mechanism to review and analyze the utility, objectivity, and integrity of performance information. DQRs are to cover: a) quality of data, b) data collection instruments, c) survey sampling methodology, d) data collection procedures, e) data entry, storage and retrieval processes, f) data manipulation and analyses and g) data dissemination. MCC requires that an independent entity conduct the DQR, such as a local or international specialized firm or research organization, or an individual consultant, depending on the size of the program or project in review. The frequency and timing of data quality reviews must be set forth in the M&E Plan; however, MCC may request a DQR at any time. DQRs should be timed to occur before or early enough in the Compact Term that meaningful remedial measures (if any) may be taken depending on the results of the review. The methodology for the review should include a mix of document and record reviews, site visits, key informant interviews, and focus groups.

7. Other Components of the M&E Plan

In addition to the monitoring and evaluation components, the full M&E Plan shall include the following components:

7.1 Data Management System

The M&E Plan shall describe the information system that shall be used to collect data, store, process and deliver information to relevant stakeholders in such a way that the Program information collected and verified pursuant to the M&E Plan is accessible and useful to those who wish to use it.

7.2 Budget

A detailed cost estimate for all components of the M&E Plan.

Description	CFF	Year 1	Year 2	Year 3	Year 4	Year 5	TOTAL
MONITORING & EVALUATION	$ 450,000	$ 1,625,000	$ 800,000	$ 1,175,000	$ 950,000	$ 1,800,000	$ 6,800,000

Data collection and surveys	$ 350,000	$ 850,000	$ 150,000	$ 150,000	$ 150,000	$ 1,100,000	$ 2,750,000
Performance Indicator Monitoring	$ -	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 750,000
Data quality reviews and audits		$ 225,000		$ 225,000	$ 100,000		$ 550,000
Capacity building and training	$ 100,000	$ 200,000	$ 150,000	$ 150,000	$ 50,000	$ 50,000	$ 700,000
Monitoring Systems and Equipment		$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 150,000	$ 750,000
Other	$ -	$ 50,000	$ 200,000	$ 350,000	$ 350,000	$ 350,000	$ 1,300,000

8. Responsibility for Developing the M&E Plan

MCC desires to "[refrain] from requesting the introduction of performance indicators that are not consistent with countries' national development strategies."[5] For this reason, primary responsibility for developing the M&E Plan lies with the M&E directorate of MCA-Timor-Leste with support and input from MCC's M&E and economist staff. The M&E Plan must be developed in conjunction with key stakeholders, including MCA-Timor-Leste leadership and sector leads, the MCC Resident Country Mission, and other MCC staff (such as cross-cutting leads), as well as external stakeholders, as applicable. While the entire M&E Plan must be developed collaboratively, MCC and MCA-Timor-Leste Project/Activity leads are expected to guide the selection of Indicators at the process and output levels that are particularly useful for management and oversight of Projects and Activities.

9. Approval and Implementation of the M&E Plan

The approval and implementation of the M&E Plan, as amended from time to time, shall be in accordance with the Program Implementation Agreement, any other relevant Supplemental Agreement and the MCC M&E Policy. All M&E Plan modifications proposed by MCA-Timor-Leste must be submitted to MCC for prior written approval. The M&E Plan may undergo peer review within MCC before the beginning of the formal approval process.

Table 1.1: Indicators

The table below lists the preliminary set of monitoring and evaluation indicators linked to each result in the project logic. Key Indicators that can be reported on at least an annual basis shall be included in quarterly monitoring indicator reports, while Indicators that require survey data or a longer time period to track shall be included in evaluation reports.

Table 1.1: Project 1: WSD Project Indicators

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Outcome Indicators						
Water Disinfection and Associated Social and Behavior Change Activities						

[5] Busan Partnership for Effective Development Cooperation, Busan Outcome Document, 1 December 2011, p. 5

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Reduce Fecal Pathogens (piped water)	Proportion of tests passing drinking water quality criteria (WS-21)	The percentage of recommended total number of samples tested for residual chlorine that pass the relevant standard (for drinking water, WHO recommends: 0.2 mg/L < residual chlorine concentration < 5 mg/L)	percentage	Value: **Dili:** 60% (rainy season) and 80% (dry season) of tested **public water supply** sites passed tests. Year: 2019	Value: 99% for points of entry Year: 2029 Value: 90% for taps Year: 2029	N
Reduce Fecal Pathogens (stored water)				Value: TBD Year: TBD	Value: TBD Year: TBD	N
Introduction of disinfectant into public water supply sites	Treated Water Quantity	The volume of treated water supplied to the entire distribution system, which equals the total volume of water produced and treated by the utility for a reference period of time.	m^3	Value: TBD Year: TBD	Value: TBD Year: 2029	N
Households properly store water and clean containers and use point-of-use treatment	Use of safely managed drinking water (WS-12)	The percentage of households in the project areas whose main source of drinking water is through safely managed drinking water services.	percentage	Value: 23% Year: 2021	Value: 70% Year: 2029	N
Households understand water quality importance and are motivated and able to develop new habits for water treatment and storage	The percentage of households that perform at least one type of water treatment for drinking water	The percentage of households that perform at least one type of water treatment (boiling or adding bleach) for drinking water	number	Value: 28% Year: 2021	Value: 70% Year: 2029	N
Disinfectant Produced	Disinfectant produced	Annual indicator	kg of FAC (Free Available Chlorine)	Value: 0 Year: 2021	Value: 70,566 Year: 2029	Y
Households engage with change campaign, social support and use tool	Households receiving water treatment and storage messaging	The number of households that receive communication via radio, TV or other source	number	Value: 0 Year: 2021	Value: 20,000 Year: 2029	Y
	Households that receive tool	The number of households that receive storage/treatment tool	number	Value: 0 Year: 2021	Value: 1,000 Year: 2029	Y

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Output Indicators **Water Disinfection and Associated Social and Behavior Change Activities**						
OSHG plant built	OSHG plant built	Date on which OSHG plant is completed.	date	Value: 0 Year: 2021	Value: 1 Year: 2028 (compact year 5, quarter 1)	Y
Disinfectant Distribution Equipment: Trucks acquired to transport disinfectant to public water supply	Disinfectant delivered	Annual volume of disinfectant, based on a uniform 0.8% sodium hypochlorite solution delivered to public water systems in Dili, Aileu, Ermera, Liquica and Manatuto	liters	Value: 0 Year: 2021	Value: Dili: 2,826,000 Aileu: 205,000 Ermera: 196,000 Liquica: 119,000 Manatuto: 552,000 Year: 2028 (compact year 5, quarter 1)	Y
Communication campaign on knowledge and awareness developed and implemented	Communication campaign on knowledge and awareness developed and implemented	Campaign may include radio or TV or other media	date	Value: 0 Year: 2021	Value: TBD (determined Dec 2022) Year: TBD (determined Dec 2022)	Y
Social support via peers or role models or others provided	Individuals trained in social and behavioral change	The number of individuals in a community trained towards achieving a specific social or behavior change, particularly pertaining to sustaining access to services, and to hygiene behaviors that block the fecal-oral pathogen transmission pathways	number	Value: 0 Year: 2021	Value: 5000 Year: 2029	Y
Small scale tool identified/developed for households to facilitate water treatment and storage	Tool completed	Tool for treatment/storage will be piloted/tested to determine appropriate design	date	Value: 0 Year: 2021	Value: TBD (determined Dec 2022) Year: TBD (determined Dec 2022)	Y
Outcome Indicators						
Sanitation and Associated Social and Behavior Change Activities						
Reduce fecal pathogens in groundwater	Proportion of tests passing water quality criteria	The percentage of recommended total number of samples tested for fecal pathogens that pass the relevant standard.	percentage	Value: **Dili:** 31% of tested **private wells** without E.coli detected Year: 2019	Value: 90% Year: 2029	N
Solid waste separated and disposed	Total suspended solids collected at Wastewater Treatment Plant	TBD	kilograms	Value: 0 Year: 2021	Value: 2,300,000 Year:2028 (year 5, quarter 1)	N
Wastewater separated and treated	Proportion of wastewater treated (WS-22)	The percentage of the total collected sewage volume that receives at least primary wastewater treatment	percentage	Value: 0 Year: 2021 Source: TetraTech Pre-Feasibility Study (FS)	Value: TBD Year: 2028 (year 5, quarter 1) Source: TBD	N

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
	Disinfectant delivered	Disinfectant delivered to wastewater treatment plant	kg of FAC	Value: 0 Year: 2021 Source: TetraTech Pre-Feasibility Study (FS)	Value: 39,380 Year: 2028 (year 5, quarter 1) Source: TetraTech Pre- Feasibility Study (FS)	N
Households properly use and maintain flush toilets	Use of safely managed sanitation facility	Proportion of households in the project area using safely managed sanitation ('improved') services. 'Improved' sanitation facilities include flush toilets to sewer systems.	percentage	Value: TBD (December 2022) Year: TBD	Value: TBD (December 2022) Year: TBD	N
	Households maintain their flush toilets	Proportion of households in the project area that do not throw trash (diapers, feminine products, etc.) into flush toilets.	percentage	Value: TBD (December 2022) Year: TBD	Value: TBD (December 2022) Year: TBD	N
Households understand importance & motivated & able to develop new habits for toileting	TBD	TBD	TBD	Value: TBD (December 2022) Year: TBD	Value: TBD (December 2022) Year: TBD	N
Households connected to sewer system	Sanitation facilities constructed (WS-26)	Number of sanitation facilities constructed as part of the Project. The facility is counted as operational when it has been handed over to the community for use. Sanitation facilities to be included in this indicator include flush toilet.	number	Residential, conventional Value: 0 Year: 2021	Residential, conventional Value: 8,292 Year: 2028 (year 5, quarter 1)	Y
				Residential, simplified Value: 0 Year: 2021	Residential, simplified Value: 5,318 Year: 2028 (year 5, quarter 1)	
				Non-residential Value: 0 Year: 2021	Non-residential Value: 1,775 Year: 2028 (year 5, quarter 1)	
Households connected to sewer system	Total customer connections, sanitation (WS-25)	Total number of wastewater connections operational through billing by the utility in a year	Number	Residential, conventional Value: 0 Year: 2021	Residential, conventional Value: 9,951 Year: 2028 (year 5, quarter 1)	Y
				Residential, simplified Value: 0 Year: 2021	Residential, simplified Value: 6,382 Year: 2028 (year 5, quarter 1)	
				Non-residential Value: 0 Year: 2021	Non-residential Value: 2,130 Year: 2028 (year 5, quarter 1)	
Pit latrines decommissioned	Total pit latrines decommissioned	TBD.	Number	Residential, conventional Value: 0 Year: 2021	Residential, conventional Value: 7,740 Year: 2028 (year 5, quarter 1)	Y
				Residential, simplified Value: 0 Year: 2021	Residential, simplified Value: 4964 Year: 2028 (year 5, quarter 1)	
				Non-residential Value: 0 Year: 2021	Non-residential Value: 1657 Year: 2028 (year 5, quarter 1)	

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Households engage with campaign, social support and O&M	Households receiving SBC toileting messaging	The number of households that receive communication via radio, TV or other source	number	Value: 0 Year: 2021	Value: TBD (December 2022) Year: TBD (December 2022)	Y
	Individuals trained in social and behavioral change (WS-6)	The number of individuals in a community trained towards achieving a specific social or behavior change, particularly pertaining to sustaining access to services, and to hygiene behaviors that block the fecal-oral pathogen transmission pathways	Number	Value: 0 Year: 2021	Value: 5,000 Year: 2029	Y
Output Indicators **Sanitation and Associated Social and Behavioral Change Activities**						
Wastewater Treatment Plant built	Wastewater Treatment Plant constructed	Date on which construction is completed.	Date	Value: 0 Year: 2021	Value: 2028 (year 5, quarter 1) Year: 2028 (year 5, quarter 1)	Y
Ocean outfall built	Ocean outfall constructed	Date on which construction is completed.	Number	Value: 0 Year: 2021	Value: 2028 (year 5, quarter 1) Year: 2028 (year 5, quarter 1)	Y
Wastewater collection system constructed (conventional gravity sewers)	Length of sewers constructed (WS-28)	Total length in kilometers of the sewage network constructed or replaced including service network and interceptors. This indicator should include all sewers including laterals to individual homes and interceptors conveying the sewage to a treatment facility. The sewers are considered completed and counted in this indicator after handover to the utility by the contractor and once operational.	kilometers	Value: 0 Year: 2021	Value: 289 Year: 2028 (year 5, Q1)	Y
Wastewater collection system constructed (Simplified gravity sewers)	Length of sewers constructed (WS-28)	Total length in kilometers of the sewage network constructed or replaced including service network and interceptors. This indicator should include all sewers including laterals to individual homes and interceptors conveying the sewage to a treatment facility. The sewers are considered completed and counted in this indicator after handover to the utility by the contractor and once operational.	kilometers	Value: 0 Year: 2021	Value: 1,775 Year: 2028 (year 5, Q1)	Y
In-street box culverts built	In-street box culverts constructed		Number	Value: 0 Year:2021	Value: 4 Year: 2028 (year 5, Q1)	Y
Interventions developed and implemented related to	TBD	TBD	TBD	TBD	TBD	TBD

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
using flush toilets						
Interventions developed and implemented related to household	TBD	TBD	TBD	TBD	TBD	TBD
O&M of flush toilets	TBD	TBD	TBD	TBD	TBD	TBD
Outcome Indicators						
Institutional Reform Activity						
Utility operating	Indicators TBD	TBD	TBD	TBD	TBD	TBD
	Utility staffed to manage wastewater system	Number of Full-Time Equivalents, target is based on approximately 6.6 FTEs per 1000 connections to the wastewater system	Number	Value: 0 Year:	Value: 135 Year:	Y
Utility staff trained	Number of BTL staff managed and trained by private operator	Private operator will train staff to operate and maintain new infrastructure in years 4 and 5 of the Compact plus 3 years post Compact	Number	Value: 0 Year:2021	Value: TBD Year: TBD	Y
Private operator contracted	Date on which private operator is contracted		Date	Value: 0 Year: 2021	Value: TBD Year: TBD	Y
Regulation and Decree-Laws passed	Regulation and Decree-Laws passed	TBD				TBD
Lab equipment purchased and in use	Planned water-quality tests completed	BTL and/or ANAS routinely tests public water and wastewater quality, including independent sampling and analysis to hold water suppliers and dischargers into the wastewater system accountable.	Percent	Value: 0 Year:2021	Value: TBD Year: TBD	Y
Output Indicators						
Institutional Reform Activity						
Utility operator training program	Utility staff training developed	Trained to include operation and maintenance of new infrastructure	Date	Value: 0 Year: TBD	Value: 0 Year: TBD	Y
Utility private operator	Private operator Terms of	Private operator will provide management and training to BTL	Date	Value: 0 Year: TBD	Value: TBD Year: TBD	Y

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
procurement support	Reference completed	for a period of 5 years, beginning in Year 3 of the Compact				
Regulatory reform assistance: sanitation regulations	TBD	TBD	TBD	TBD	TBD	Y
Sanitation and Disinfection O&M Support	Standards and enforcement measures for potable water and wastewater effluent quality created	Develop standards in the following (1) effluent quality from the Wastewater Treatment Plant, (2) wastewater discharges from industrial customers (treatment before entering piped sanitation collection system, (3) decommissioning of septic tanks and mandatory connections when a central collection system is made available, and (4) septic tank regulations for areas without piped water.	Number	Value: 0 Year: TBD	Value: 0 Year: TBD	Y
Long-Term Outcomes per CBA						
Long-term outcomes per CBA	Prevalence of diarrhea, children under 5	The percentage of individuals reported as having diarrhea in the two weeks preceding the survey.	percentage	Value: 15.5 (Dili) Year: 2016	Value: 11.6 Year: 2029	N

Table 1.2: Project 2: TALENT Project Indicators

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Outcome Indicators						
Improved student learning outcomes (literacy, numeracy, soft skills)	Student test scores	Average test scores on standardized tests for secondary students	standard deviation	Value: TBD Year: TBD	An increase in test scores of: 0.14 SD for students taught by current teachers trained 0.14 for students taught by trained future teachers 0.04 SD for girls taught by Female Teachers	N
Improved secondary classroom teaching	Time on task	Per class period, the amount of time the teacher spends on instruction versus discipline and out of the classroom	percentage	Value: TBD Year: TBD	Value: TBD Year: TBD	N
	Percentage of school day that school leaders spend observing and coaching teachers	Per school day, the amount of time the school leader spends on observing teachers during class and giving feedback.	percentage	Value: TBD Year: TBD	Value: TBD Year: TBD	N
	Number CoE-trained secondary teachers placed in schools	Future teachers placed in secondary schools	number	Value: 0 Year: 2021	Value: 400 Year: 2029	Y
	Number of schools with CoE-trained teachers	Secondary schools	number	Value: 0 Year:2021	Value: 167 Year:2029	Y
	(E-6) Students participating in Project-supported education activities	The number of students enrolled or participating in Project-supported educational schooling	number	Value: 0 Year: 2021	Value: 74,000 Year: 2029	Y
Current teachers upskilled	(E-5) Instructors trained, current	The number of classroom instructors who complete Project-supported training focused on instructional quality as defined by the compact training activity. Teachers trained in their schools by prospective school leaders and school leaders and CoE. To avoid double counting, the target is calculated as the total number of teachers (4400-1000 current teachers certified – 600 future teachers certified -835 prospective school leaders trained)	number	Value: 0 Year:2021	Value: 1965 Year: 2029	Y
Autonomous CoE functioning and sustainable	CoE operational	TBD	date	Value: 0 Year:2021	Value: 2029 Year: 2029	Y
	Number of future instructors certified	Number of classroom instructors receiving CoE qualification (future teachers)	number	Value: 0 Year: 2021	Value: 600 Year: 2029	Y

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
Teachers certified by the CoE	Number of current instructors certified	Number of classroom instructors receiving CoE qualification (current teachers)	number	Value: 0 Year:2021	Value: 1000 Year:2029	Y
	Number of school leaders and prospective school leaders certified	Number of classroom school leaders and prospective school leaders receiving CoE qualification	number	Value: 0 Year:2021	Value: 167 (school leaders) 668 (prospective school leaders) Year:2029	Y
School leaders and prospective school leaders training and supporting teachers in their schools	Instructors supported	The number of classroom instructors who are supported by their school leaders and prospective school leaders **(**cascade model**)**	number	Value: 0 Year: 2021	Value: 3565 (4400 total teachers minus 835 school leaders and prospective school leaders) Year: 2029	Y
Trainees using ICT equipment to register teacher and student performance	Percentage of teachers and students entered into monitoring system	TBD	percentage	Value: TBD Year: 2021	Value: TBD Year: TBD	Y
Trainees using ICT equipment to receive training	Number of instructors and school leaders taking computerized training courses	TBD	number	Value: TBD Year: 2021	Value: TBD Year: TBD	Y
Increased proportion of female teachers and female school leaders	Percentage of female secondary-school teachers	Percentage of female secondary-school teachers divided by all secondary school teachers	percentage	Value: TBD Year: 2021	Value: TBD Year: TBD	Y
	Percentage of female secondary-school leaders	Percentage of female secondary-school leaders divided by all secondary school leaders	percentage	Value: TBD Year: 2021	Value: TBD Year: TBD	Y
Output Indicators						
CoE institutionalized	CoE with executive board and organizational, legal and financial frameworks drafted	Dates for each of these milestones: executive board populated, and organizational, legal and financial frameworks drafted	date	Value: TBD Year: 2021	Value: TBD Year: TBD	Y
	CoE staffed	Staffing requirements fulfilled	date	Value: TBD Year: 2021	Value: TBD Year: TBD	Y
CoE constructed	(E-4) Educational facilities constructed or rehabilitated	The number of educational facilities constructed or rehabilitated according to standards stipulated in MCA contracts signed with implementers.	number	Value: 0 Year: 2021	Value: 1 Year: 2029	Y
New post-graduate teacher qualification created	Post-graduate teacher qualification created	TBD	date	Value: TBD Year: 2021	Value: TBD Year: TBD	Y
New teacher curriculum and training materials developed	Teacher education curriculum developed	Inclusive and gender-sensitive teacher education curriculum developed	date	Value: TBD Year: 2021	Value: TBD Year: TBD	Y

Result	Indicator	Definition	Unit	Baseline	Compact Target	ITT Indicator (Y/N)
	Training materials developed	Dates on which training materials are completed: to include numeracy, literacy, and student assessment, that are gender sensitive and inclusive	date	Value: TBD Year: 2021	Value: TBD Year: TBD	Y
Future teachers trained in pedagogy, student assessment, classroom management, ICT, inclusivity, gender sensitivity, and language	(E-5) Future instructors trained	The number of classroom instructors who complete Project-supported training focused on instructional quality as defined by the Teacher Training Activity. Trained by CoE staff.	number	Value: 0 Year: 2021	Value: 600 Year: 2029	Y
Future teachers complete a practicum in an actual classroom	Future teachers complete practicum	TBD	Number	Value: 0 Year: 2021	Value: 600 Year: 2029	Y
Subset of current teachers trained in same curriculum as future teachers	(E-5) Current instructors trained	The number of classroom instructors who complete Project-supported training focused on instructional quality as defined by the Teacher Training Activity. Trained by CoE staff.	number	Value: 0 Year: 2021	Value: 1000 Year: 2029	Y
Training materials developed in school management, instructional leadership	Training materials developed	Dates on which training materials are completed: to include school management and instructional leadership	date	Value: TBD Year: 2021	Value: TBD Year: TBD	Y
School leaders and prospective school leaders trained	(E-5) School leaders and prospective school leaders trained	The number of classroom instructors who complete Project-supported training focused on instructional quality as defined by the Teacher Training Activity. Trained by CoE staff.	number	Value: 0 Year:	Value: 167 (School Leaders) 668 (prospective school leaders) Year:	Y
Quality Assurance Monitoring Sub-Activity	TBD					
Women's Economic Empowerment in Education Sub-Activity	TBD					
Language labs and ICT supports created, ICT equipment provided to trainees	TBD					

ANNEX IV

CONDITIONS PRECEDENT

TO DISBURSEMENT OF CFF

This Annex IV sets forth the conditions precedent applicable to Disbursements of Compact Facilitation Funding (each a "***CFF Disbursement***"). Upon signature of the Program Implementation Agreement, each CFF Disbursement shall be subject to the terms of the Program Implementation Agreement in addition to the terms set forth in this Annex IV.

1. Conditions Precedent to Initial CFF Disbursement.

Each of the following must have occurred or been satisfied, in form and substance acceptable to MCC, prior to the initial CFF Disbursement:

(a) The Government (or MCA-Timor-Leste) has delivered to MCC an interim fiscal accountability plan acceptable to MCC; and

(b) The Government has put in place a CFF procurement plan acceptable to MCC.

2. Conditions Precedent to all CFF Disbursements (Including Initial CFF Disbursement).

Each of the following must have occurred or been satisfied prior to each CFF Disbursement:

(a) The Government (or MCA-Timor-Leste) has delivered to MCC the following documents, in form and substance satisfactory to MCC:

(i) a completed Disbursement Request, together with the applicable Periodic Reports, for the applicable Disbursement Period, all in accordance with the Reporting Guidelines;

(ii) a certificate of the Government (or MCA-Timor-Leste), dated as of the date of the CFF Disbursement Request, in such form as provided by MCC;

(iii) if a Fiscal Agent has been engaged, a Fiscal Agent Disbursement Certificate; and

(iv) if a Procurement Agent has been engaged, a Procurement Agent Disbursement Certificate.

(b) If any proceeds of the CFF Disbursement are to be deposited in one or more bank accounts, MCC has received satisfactory evidence that (i) the Bank Agreement has been executed and (ii) the Permitted Accounts have been established.

(c) Appointment of an entity or individual to provide fiscal agent services, as approved by MCC, until such time as the Government provides to MCC a true and complete

copy of a Fiscal Agent Agreement, duly executed and in full force and effect, and the fiscal agent engaged thereby is mobilized.

(d) Appointment of an entity or individual to provide procurement agent services, as approved by MCC, until such time as the Government provides to MCC a true and complete copy of the Procurement Agent Agreement, duly executed and in full force and effect, and the procurement agent engaged thereby is mobilized.

(e) MCC is satisfied, in its sole discretion, that (i) the activities being funded with such CFF Disbursement are necessary, advisable or otherwise consistent with the goal of facilitating the implementation of this Compact and shall not violate any applicable law or regulation; (ii) no material default or breach of any covenant, obligation, or responsibility by the Government, MCA-Timor-Leste, or any Government entity has occurred and is continuing under this Compact or any Supplemental Agreement; (iii) there has been no violation of, and the use of requested funds for the purposes requested shall not violate, the limitations on use or treatment of MCC Funding set forth in Section 2.7 of this Compact or in any applicable law or regulation; (iv) any Taxes paid with MCC Funding through the date 90 days prior to the start of the applicable Disbursement Period have been reimbursed by the Government in full in accordance with Section 2.8(c) of this Compact; and (v) the Government has satisfied all of its payment obligations, including any insurance, indemnification, tax payments, or other obligations, and contributed all resources required from it, under this Compact and any Supplemental Agreement.

(f) For any CFF Disbursement occurring after this Compact has entered into force in accordance with Article 7: MCC is satisfied, in its sole discretion, that (i) MCC has received copies of any reports due from any technical consultants (including environmental auditors engaged by MCA-Timor-Leste) for any Activity since the previous Disbursement Request, and all such reports are in form and substance satisfactory to MCC; (ii) the Implementation Plan Documents and Fiscal Accountability Plan are current and updated and are in form and substance satisfactory to MCC, and there has been progress satisfactory to MCC on the components of the Implementation Plan for any relevant Projects or Activities related to such CFF Disbursement; (iii) there has been progress satisfactory to MCC on the M&E Plan and Social and Gender Integration Plan for any relevant Projects or Activities and substantial compliance with the requirements of the M&E Plan and Social and Gender Integration Plan (including the targets set forth therein and any applicable reporting requirements set forth therein for the relevant Disbursement Period); (iv) there has been no material negative finding in any financial audit report delivered in accordance with this Compact and the Audit Plan for the prior two quarters (or such other period as the Audit Plan may require); (v) MCC does not have grounds for concluding that any matter certified to it in the related MCA Disbursement Certificate, the Fiscal Agent Disbursement Certificate, or the Procurement Agent Disbursement Certificate is not as certified; and (vi) if any of the officers or key staff of MCA-Timor-Leste have been removed or resigned and the position remains vacant, MCA-Timor-Leste is actively engaged in recruiting a replacement.

(g) MCC has not determined, in its sole discretion, that an act, omission, condition, or event has occurred that would be the basis for MCC to suspend or terminate, in whole or in part, this Compact or MCC Funding in accordance with Section 5.1 of this Compact.

ANNEX V

ADDITIONAL CONDITIONS PRECEDENT TO ENTRY INTO FORCE

The following additional conditions must be met before this Compact enters into force:

(a) MCA-Timor-Leste must have submitted to MCC evidence in form and substance satisfactory to MCC that MCA-Timor-Leste has secured, or the appropriate Government entity has secured and made available to MCA-Timor-Leste, land for the Wastewater Treatment Plant and the OSHG plant to be able to comply with the IFC Performance Standards, including the IFC Performance Standard on Land Acquisition and Involuntary Resettlement.

ANNEX VI

DEFINITIONS

Activity *has the meaning provided in Section B of Annex I.*

Additional Representative *has the meaning provided in Section 4.2.*

ANAS *has the meaning provided in Section B.1(a)(iv) of Annex I.*

Annex *has the meaning provided in Section 6.1.*

Audit Guidelines *has the meaning provided in Section 3.8(a).*

Audit Plan *has the meaning provided in Section 3.8(a).*

Bank *means the financial institution approved by MCC to hold MCA-Timor-Leste's Permitted Account.*

Bank Agreement *means an agreement, in form and substance satisfactory to MCC, between MCA-Timor-Leste and the Bank that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to MCA-Timor-Leste's Permitted Account.*

Baseline *has the meaning provided in Section 4.1.1 of Annex III.*

Board of Directors *has the meaning provided in Section C.1(d) of Annex I.*

BTL *has the meaning provided in Section B.1(a)(iv) of Annex I.*

CBA *has the meaning provided in Section 2.3.1 of Annex III.*

CDF Agreement *has the meaning provided in Section 3.2(b).*

CFF Disbursement *has the meaning provided in Annex IV.*

CFF Disbursement Request *means a Disbursement Request pertaining to CFF.*

Compact *has the meaning provided in the Preamble.*

Compact Facilitation Funding *or* ***CFF*** *has the meaning provided in Section 2.2(a).*

Compact Goal *has the meaning provided in Section 1.1.*

Compact Records *has the meaning provided in Section 3.7(a).*

Compact Term *has the meaning provided in Section 7.4.*

Cost Recovery Plan *has the meaning provided in Section B.1(d) of Annex I.*

Covered Provider *has the meaning provided in the Audit Guidelines.*

Detailed Financial Plan *means the financial plan developed and implemented by MCA-Timor-Leste for each quarter for the upcoming year and on an annual basis for each year of the remaining years of the Compact, in accordance with the Reporting Guidelines, setting forth funding requirements for the Program (including administrative costs) and for the Project, broken down to the sub-activity level (or lower, where appropriate), and projected both on a commitment and cash requirement basis.*

Disbursement *has the meaning provided in Section 2.4.*

Disbursement Period *means each quarter, or any other period of time as agreed between MCA-Timor-Leste and MCC, during which MCA-Timor-Leste submits to MCC a Disbursement Request for funding.*

Disbursement Request *means a request by MCA-Timor-Leste to MCC for Program Funding or CFF, respectively, submitted in accordance with the Reporting Guidelines.*

DQRs *has the meaning provided in Section 6 of Annex III.*

ERR *has the meaning provided in Section 2 of Annex III.*

ESIA *has the meaning provided in Section B.1(c) of Annex I.*

ESMP *has the meaning provided in Section B.1(c) of Annex I.*

Evaluation Component *has the meaning provided in Section 1 of Annex III.*

Excess CFF Amount *has the meaning provided in Section 2.2(d).*

Fiscal Accountability Plan *means the manual, to be developed and implemented by MCA-Timor-Leste (as approved by MCC) setting forth the principles, mechanisms and procedures that MCA-Timor-Leste shall use to ensure appropriate fiscal accountability for the use of MCC Funding.*

Fiscal Agent *has the meaning provided in Section C.3 of Annex I.*

Fiscal Agent Agreement *means an agreement between MCA-Timor-Leste and the Fiscal Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions.*

Fiscal Agent Disbursement Certificate *means a certificate of the Fiscal Agent, substantially in the form provided by MCC.*

Government *has the meaning provided in the Preamble.*

Grant *has the meaning provided in Section 3.6(b).*

ICT *has the meaning provided in Section B.2(a) of Annex I.*

IFC Performance Standards *has the meaning provided in Section B.1(c) of Annex I.*

Implementation Letters *has the meaning provided in Section 3.5.*

Implementation Plan *refers to the collective nine Implementation Plan Documents, in form and substance approved by MCC, elaborating the framework for implementation of the Program.*

Implementation Plan Document *means each of nine documents further described in the PIA, including (i) a Work Plan, (ii) a Detailed Financial Plan, (iii) an Audit Plan and (iv) a Procurement Plan.*

Implementing Entity *has the meaning provided in Section C.2 of Annex I.*

Implementing Entity Agreement *has the meaning provided in Section C.2 of Annex I.*

Indicator Tracking Table *and* ***ITT*** *have the meaning provided in Section 4.1.7 of Annex III.*

Indicators *has the meaning provided in Section 4.1 of Annex III.*

INFORDEPE *has the meaning provided in Section B.2(g) of Annex I.*

Initial CFF Disbursement *means the first Disbursement relating to CFF.*

Inspector General *has the meaning provided in Section 3.7(c).*

Instituto publico *has the meaning provided in Section C.1(a) of Annex I.*

Intellectual Property *means all registered and unregistered trademarks, service marks, logos, names, trade names and all other trademark rights; all registered and unregistered copyrights; all patents, inventions, shop rights, know how, trade secrets, designs, drawings, art work, plans, prints, manuals, computer files, computer software, hard copy files, catalogues, specifications, and other proprietary technology and similar information; and all registrations for, and applications for registration of, any of the foregoing, that are financed, in whole or in part, using MCC Funding.*

M&E *has the meaning provided in Section 1 of Annex III.*

M&E Plan *has the meaning provided in Annex III.*

MCA Act *has the meaning provided in Section 2.2(a).*

MCA-Timor-Leste *has the meaning provided in Section 3.2(b).*

MCC *has the meaning provided in the Preamble.*

MCC Environmental Guidelines *has the meaning provided in Section 2.7(c).*

MCC Funding *has the meaning provided in Section 2.3.*

MCC Gender Policy *means the MCC Gender Policy (including any guidance documents issued in connection with such policy).*

MCC M&E Policy *has the meaning provided in Annex III.*

MCC Program Closure Guidelines *means the MCC Program Closure Guidelines (including any guidance documents issued in connection with such guidelines).*

MCC Program Grant Guidelines *has the meaning provided in Section 3.6(b).*

MCC Program Procurement Guidelines *has the meaning provided in Section 3.6(a).*

MCC Website *means the MCC website at www.mcc.gov.*

Ministry-supported Positions *has the meaning provided in Section B.2(a)(i)(A) of Annex I.*

Monitoring Component *has the meaning provided in Section 1 of Annex III.*

Multi-Year Financial Plan Summary *has the meaning provided in Annex II.*

O&M *has the meaning provided in Section B.1(a)(iv) of Annex I.*

Operations Unit *has the meaning provided in Section C.1(d) of Annex I.*

Orgão Fiscal *means the body or individual responsible for monitoring and ensuring MCA-Timor-Leste's compliance with legal, regulatory, and financial requirements, as well as the provisions of this Compact, the PIA, or any Supplemental Agreement.*

OSHG *has the meaning provided in Section B.1(a)(i) of Annex I.*

Party *and* ***Parties*** *have the meaning provided in the Preamble.*

Periodic Reports *means the reports and information that MCA-Timor-Leste shall periodically provide to MCC, in form and substance satisfactory to MCC, as required by the Reporting Guidelines.*

Permitted Account *has the meaning provided in Section 2.4.*

Principal Representative *has the meaning provided in Section 4.2.*

Procurement Agent *has the meaning provided in Section C.4 of Annex I.*

Procurement Agent Agreement *means the agreement that MCA-Timor-Leste shall enter into with the Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions.*

Procurement Agent Disbursement Certificate *means a certificate of the Procurement Agent, substantially in the form provided by MCC.*

Procurement Plan *means the plan prepared by MCA-Timor Leste for acquiring the goods, works, and consultant and non-consultant services needed to prepare and implement the Compact.*

Program *has the meaning provided in the recitals to this Compact.*

Program Assets *means any assets, goods or property (real, tangible or intangible) purchased or financed in whole or in part (directly or indirectly) by MCC Funding.*

Program Funding *has the meaning provided in Section 2.1.*

Program Guidelines *means collectively the Audit Guidelines, the MCC Environmental Guidelines, the MCC Policy for Accountable Entities and Implementation Structures, MCC Program Grant Guidelines, the MCC Program Procurement Guidelines, the Reporting Guidelines, the MCC M&E Policy, the MCC Cost Principles for Government Affiliates, the MCC Program Closure Guidelines, the MCC Gender Policy, the Gender and Social Integration Milestones and Operational Procedures, the MCC Guidelines for Economic and Beneficiary Analysis, the MCC Standards for Global Marking, the MCC Guidelines for Country Contributions, the MCC Counter-Trafficking in Persons Policy, the Policy on Preventing, Detecting and Remediating Fraud and Corruption in MCC Operations, and any other guidelines, policies or guidance papers relating to the administration of MCC-funded compact programs, in each case, as such may be posted from time to time on the MCC Website.*

Program Implementation Agreement *and* ***PIA*** *have the meaning provided in Section 3.1.*

Project *has the meaning provided in Section 1.2.*

Project Objective *has the meaning provided in Section 1.2.*

Provider *means (a) any entity of the Government that receives or uses MCC Funding or any other Program Asset in carrying out activities in furtherance of this Compact or (b) any third party that receives at least US$50,000 in the aggregate of MCC Funding (other than as salary or compensation as an employee of an entity of the Government) during the Compact Term.*

RAP *has the meaning provided in Section B.1(c) of Annex I.*

Reporting Guidelines *means the MCC Guidance to Accountable Entities on the Quarterly Disbursement Request Package.*

RPF *has the meaning provided in Section B.1(c) of Annex I.*

Social and Gender Integration Plan *means the plan prepared in accordance with the MCC Gender Policy and the Gender and Social Integration Milestones and Operational Procedures, as further described in the Program Implementation Agreement.*

Supplemental Agreement *means any agreement between (a) the Government (or any Government affiliate, including MCA-Timor-Leste) and MCC (including, but not limited to, the PIA), or (b) MCC and/or the Government (or any Government affiliate, including MCA-Timor-Leste), on the one hand, and any third party, on the other hand, including any of the Providers, in each case, setting forth the details of any funding, implementing or other arrangements in furtherance of, and in compliance with, this Compact.*

Target *has the meaning provided in Section 4.1.2 of Annex III.*

Taxes *has the meaning provided in Section 2.8(a).*

TIP *has the meaning provided in Section B.1(d) of Annex I.*

United States *has the meaning provided in the Preamble.*

United States Dollars or US$ *means the lawful currency of the United States of America.*

USAID *means the United States Agency for International Development.*

Wastewater Treatment Plant *has the meaning provided in Section B.1(a)(ii) of Annex I.*

Work Plan *means the plan, in form and substance satisfactory to MCC that MCA-Timor-Leste shall develop and implement for the overall administration of the Program.*

WSD Contribution *has the meaning provided in Section 2.6(a).*

WSD Project *has the meaning provided in Section B.1(a) of Annex I.*